

**The Dynamics of Restructuring and Relocation:
The Case of Hong Kong's Garment Industry**

by

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Abstract

The Dynamics of Restructuring and Relocation: The Case of Hong Kong's garment industry

The study examines the restructuring strategy of local garment manufacturers in Hong Kong and the consequent changes in work organization during the late 1970's to 1990's. Garment industry has been playing a significant part in the industrialization of Hong Kong. Its growth has been undermined by the increasing competitiveness from other low-wages newly developed countries in Asia. Meanwhile, the world economy is undergoing a process of global restructuring that redefines the capital-labour relationships, the role of state and furthering the interdependency of economic functions across national boundaries. The study aims to investigate how local manufacturers manage to survive in the current era. Why is industrial relocation perceived as the "only-option" as their major restructuring strategy? By drawing out the diversity of local garment firms' experiences in the restructuring process, it is hoped that that we can shed light on the features of the "Hong Kong way" of industrial restructuring.

This study engages a theoretical dialogue with the Global Commodity Chain perspective from Gary Gereffi. The focus is on the discussing the critical role of overseas buyers in shaping production networks in the buyer-driven commodity chain. When local manufacturers are incorporated in the world economy through the OEM or OBM, there emerges diverse patterns of interfirm linkages between buyers and local manufacturers in the commodity chain: close-tie and loose-tie. The former is characterized by its "cooperative" nature while the latter is more "instrumental". These two types of ties have implications for the restructuring strategy of local garment manufacturers.

The unravelling of these two types of interfirm linkages helps to fill the gap about the content of the buyer-driven governance structure which Gereffi neglects in the buyer-driven GCCs literature. Using the resource dependency perspective, this study shows that local manufacturers look for autonomy to avoid control from the buyers. This study shows when local manufacturers make the relocation decision, the buyer is not necessarily the coercive factor to push the relocation. There emerges different types of responses from buyers upon the relocation decision. Both contested and disinterested responses are found in the relocation process. The buyer-driven thesis holds only when the manufacturers are dependent on the buyers or when the buyer becomes a manufacturer as well. Instead, the emergence of “mimetic isomorphism” is very dominant among the local manufacturers, whether they are in a close-tie or a loose-tie pattern. The sense of uncertainty becomes a powerful force for manufacturers to model their actions after other firms in relocation decision.

This study also finds that the presence of the institutional arrangement like the quota system is also conducive to the industrial relocation. Labour-intensive production processes have been shifted to the Mainland. Some garment firms however retain the production base in the territory and still manage to survive by utilizing the production network in the Mainland.

Meanwhile, it also leads to the re-organization of work in Hong Kong’s production base. Most of the labour-intensive process are shifted to China. Hong Kong remains as a centre of garment global sourcing, product design, marketing and other trading-related activities.

論文撮要

轉型與搬廠的動態——香港製衣業的個案研究

這研究主要探討本港製衣廠家在七十年代末期至九十年代的轉型策略，以及在經濟轉型中對於業內工作組織的影響。香港製衣業在本港的工業化過程一直扮演重要角色，但它的增長亦逐漸受到亞洲鄰近新興工業國的競爭所影響。與此同時，世界經濟正進行全球性的轉型，並因此重新界定資本與勞動的關係、國家的角色、以及國與國之間的經濟關係的互相依賴。這研究主要探討本地廠家在上述的情況下如何找其生存策略。同時，為什麼本地廠家往往視「搬廠」為主要的轉型策略？透過探討不同廠家的轉型經驗，希望能夠進一步了解香港工業轉型的特色。

此研究亦介入了有關 Gary Gereffi 的「全球商品鍊帶」(Global Commodity Chain)理論性的討論，此理論主要指出在「買家帶動的商品鍊帶」下，海外買家在塑造生產網絡扮演一個主導角色。研究發現當本地廠家透過「來樣加工」(OEM)及「品牌建立」(OBM)的過程與世界經濟扣連時，在這過程中與海外買家產生兩種不同形態的「組織關係」——緊密及鬆散的形態。前者的特性是以「合作性」為主，而後者則較「工具性」；這兩種不同形態的組織關係均影響著本地廠家的轉型策略。

探討這兩種組織關係有助我們補充 Gereffi 討論以買家為主的「主導結構」(Governance-structure)內的具體內涵；這研究採用了組織理論中「資源依賴」角度(Resource Dependency Perspective)，指出本地廠家會時常尋求其自主性，以避免被買家所控制。同時，當本地廠家做搬廠的決定時，買家未必是一個強力的因素去驅使他們搬廠；海外買家對於廠家的搬廠有不同的反應，他們既有反對廠家搬廠，也有漠不關心的反應，當本地廠家依賴海外廠家時，或者買家同時也成為製造商的時候，「買家帶動」的命題才能出現。事實上，無論在緊密或鬆散的組織關係中，本地廠家在搬廠卻出現了「擬態的同型性」(mimetic isomorphism)的現象，廠家對於生存環境的不確定感覺成為一股強大的力量，推動他們模倣其他廠家的行動而作出搬廠的決定。

本研究亦發現制度性的安排如「配額制度」對於廠家決定搬廠也起推動作用，勞動密集的生產工序北移中國；但部分仍在香港生產的廠家，則利用中國的生產網絡的支持下，得以生存。

最後，經濟轉型過程亦令香港的生產基地產生變化，當大部分勞動密集的工序北移中國，香港則成爲一個全球性成衣銷售、產品設計、市場及其他貿易活動的中心。

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Chapter One: Introduction

This study is concerned with the restructuring experiences of garment manufacturers in the Hong Kong's garment industry and interfirm linkages between domestic manufacturers and overseas buyers in the global commodity chains. I would like to take the restructuring experience of local garment manufacturers in Hong Kong as a case to shed light on the "Hong Kong's way of industrial restructuring", and to engage in a theoretical dialogue with Gary Gereffi on his theory of global commodity chains (GCCs).

The garment industry plays a significant role in Hong Kong's post-war industrialization. It is the largest manufacturing industry in Hong Kong in terms of gross output, employment and export. (Hong Kong Industry Department:1996) Hong Kong is also one of the world leading apparel sourcing center. However, the industry's growth has been undermined by the intense competition from the East Asian NICs and other developing countries and increasing protectionism from the core countries in the past decades. Meanwhile, the world economy has been undergoing a global restructuring process that redefines capital-labor relations, mobility of capital, and the organization of production and trading activities, resulting from the industrialization of peripheral and semi-peripheral economies in the post-war decades. (Henderson:1989, Frobel 1981, Dicken:1992, Gereffi:1994) The changing global economy provides opportunities and imposes constraints on the development of the Hong Kong's garment industry. And at the home front, local garment manufacturers also encounter the problems of rising production cost and changes in the labor market. Hong Kong economy is undergoing a restructuring process. The tertiary sector gradually replaced the manufacturing sector as the major economic sector in 1987 and subsequently the share of gross domestic product of manufacturing activity fell to less than ten percent of the total GDP in 1994. How do

local garment manufacturers manage to survive in such a business environment? What are their restructuring strategies for maintaining their competitive edge? What are the social outcomes of the re-organization of production network and changes in the work organization brought about by the restructuring process? These are the questions that I would like to examine in this study.

Let me further explain why I am interested in the above questions. First, until recently, the issues of the industrial restructuring in Hong has not attracted much academic attention. Recently however, Chiu, Ho, and Lui (1997) have examined the industrial restructuring patterns and outcomes in Hong Kong's industries from a historical-institutional perspective. One of their major concerns is to examine the institutional configuration of the manufacturing sector in several aspects like the state-capital relationship, capital-labor relations, and the banking sector, and how these institutional factors shape the industrial restructuring patterns and outcomes of local manufacturing industries. Without going further into their studies here, (I will address these issues in the next chapter), suffice it to say that they remind us that all economic actions are historically instituted (also see Polanyi, 1957). The restructuring experience of the manufacturers cannot be fully explained in terms of technical efficiency or economic optimization. In reality, their restructuring strategies illustrate a sociological dimension that cannot be abstracted from the institutional setting and the embeddedness of economic action. How can we unearth the sociological dimensions of their restructuring strategy? In what ways are their actions structured by the institutional arrangements? In my view it is also important to show the active role played by the manufacturers in shaping the business environment.

Second, industrial relocation is the major restructuring strategy of local garment manufacturers. Various studies show that many local manufacturers have moved their

production to South China (Hong Kong Industry Department and KSA Reports, various years). It seems that garment manufacturers have chosen relocation as their major coping strategy. I am interested in knowing why *industrial relocation is often perceived by local manufacturers as the "only-option" to deal with industrial restructuring*. How do they arrive at such a decision? On the other hand, it is also very interesting to note that while many garment firms decide to relocate production to South China, some garment firms manage to retain their production bases in the territory. I do not intend to treat them as "exceptional". How can we explain their restructuring strategy in the context of massive relocation? What are the social outcomes of changes in the production network and work organization in Hong Kong's manufacturing in the restructuring process? These are the questions that this study tries to answer.

Our study of industrial restructuring will throw light on the literature of development theories. The recent work on the global commodity chains (GCCs) by Gary Gereffi (1992, 1994) is found relevant to my research on industrial restructuring in Hong Kong.

It is my contention that there is tension between macro political economy analysis and the micro level analysis of economic action. A close scrutiny of the social process shaping industrial restructuring strategy is needed in order to strengthen the political economy analysis of the GCCs. I suggest therefore that a study of industrial restructuring at the firm level is important.

The central questions of this study are: what is the restructuring strategy of Hong Kong's garment manufacturers? Why is relocation perceived by local manufacturers as their major coping strategy? How do they interact with overseas buyers? What are the social outcomes of industrial relocation? By exploring the above questions, I hope this study can throw light on the "Hong Kong's way industrial restructuring " as well as

entering into a dialogue with the GCCs literature.

Data and Methodology

In-depth interviews and visits to the garment factories are employed for data collection in this study. Thirteen garment factories have been interviewed by means of an open-ended questionnaire in May 1996 - February 1997. The selection of these thirteen cases is mainly based on the method of snowball sampling. At the beginning of the study, I asked my friends to introduce me to management of garment firms. Two garment firms were interviewed in May - August 1996 as a pilot study. After the interviews, I asked the managers to introduce me to other garment factories. Apart from this, letters were sent to fifty local garment factories by random sampling method. The sampling frame is adopted from the Trade Development Council's garment manufacturers' directory. However, the response was poor, only four companies responded and granted me an interview. The interviewees were either the owner, the managing director or manager of the garment firms. (See the appendix) The interviews lasted for about one and a half-hour each time. A second round interview was conducted in December 1996 - February 1997, asking follow-up questions relating to interfirm linkages. All the interviews were cassette-recorded and then transcribed for analysis (except case M). The interviews covered the following areas: 1. Organizational profile 2. The perception of difficulties on the industry 3. Connections with buyers 4. product markets 5. the process of relocation 6. changes in production network and work organization. Where appropriate, I have also carried out documentary research (e.g. reviewing annual reports or company profiles about the interviewed garment factories) on the garment-making industry.

I also visited the shopfloor of selected factories. Most of my respondents accompanied me to visit their production lines in Hong Kong (except case C because of

time constraints). If possible, I also talked to some workers in their factories.

The third source of data in this study is the records of interview on garment factories published in *Textiles and Clothing*, a Bi-monthly trade journal published by the Trade Development Council in 1989.

Besides, the general manager of the Quick Response Centre, Mr Lee Kwok Keung and the chairman of the Exporters' Association, Mr. Willy S M Lam, had been interviewed and asked their opinion on the government's role and outlook for the garment industry.

Given the non-random nature of these cases, these intensive interviews concerning the restructuring strategies is not intended to give a representative picture (in the statistical sense) of the restructuring patterns of Hong Kong. These cases are essentially heuristic. I hope that the interviews with garment manufacturers can advance our understanding of the social process and dynamics of industrial restructuring in Hong Kong.

Organization of chapters

The following chapter reviews the development literature. A critical evaluation on the existing major theoretical perspectives is carried out to assess their strengths and weaknesses. My review covers the statist, free-market, world-economy and historical-institutional perspectives. Then, I turn to the global commodity chain perspective. My review suggests that we need to bring back the role of local manufacturers at an organizational level of analysis in the product world and to unravel the diversity of inter-firm linkages in the buyer-driven commodity chain. Chapter Three gives a brief description of the background of the historical development of garment industry after the post-war period in Hong Kong and the difficulties the industry encountered during the eighties and the nineties.

Then, in Chapter Four, we look at how garment manufacturers manage to capture the market niche in the world economy through original equipment manufacturing(OEM) or original brand manufacturing (OBM). Different types of product strategy as well as the notion of "industrial flexibility" being utilized by the manufacturers will be examined.

In Chapter Five, I shall examine the relationship between the buyers and the manufacturers in the commodity chains. There are two different types of ties in the relationship with the buyers. I examine the nature of these ties and their characteristics in order to analyze the governance structure of the global commodity chains.

In Chapter Six and Seven, I shall deal with the restructuring experiences of the garment firms during the eighties and the nineties and the subsequent changes in the production network and work organization in Hong Kong.

Chapter Two: Literature Review on industrialization and Global Commodity Chains perspective

In this chapter I would first review the major studies of industrial development in Hong Kong. Then I introduce the Global Commodity Chain approach. My contention is that the existing literature cannot provide an adequate framework for us to comprehend the form and the process of industrial restructuring in Hong Kong. The GCCs approach provides a good starting point for us to connect economic actors' actions to the macro processes in the world economy. This can be an entry point for us to analyze the process of industrial restructuring. The second section is a review of the GCC approach and the relevant studies. The GCC approach addresses questions raised by Marxist theories of development. This perspective attempts to go beyond a production-based analysis of economic organization and explains how economic actors' actions are connected to the commodity chains. It draws our attention to the need to bring the firm back into our analysis of development. It is my intention to enter into a dialogue with the GCCs literature by unravelling the nature of the governance structure of the buyer-driven commodity chain.

2.1 Existing theoretical perspective on industrialization and their limitations

The phenomenal economic development in East Asia has attracted enormous academic interest from different perspectives in recent decades. The East Asian NICs have experienced favourable economic growth by export-led industrialization during the sixties when there was an expansion of the world market and an inflow foreign capital to the region. The increase in production cost in the developed countries in the 1970's pushed the capitalists in those countries to

shift their production to the East Asian NICs or to find overseas suppliers for the core market. This helped to foster the development of the light industries in the NICs.

In the following, I would examine some of the major perspectives in the study of economic development in the NICs.

The Free-market perspective: The neo-classical economists emphasize the advantages of a free market economy. Their main argument is that economic liberalism is the main driving force for economic growth. The favourable economic growth of Hong Kong is due to the operation of a free-market mechanism and efficient allocation of resources. By free-market, they mean that there is no control of the inflow and outflow of capital, provision of free port, and the practice of free trade. Besides, the government creates a regulatory framework and a modern infrastructure for free market operation. (Friedmann:1980, Lethbridge:1980, Haddon-Cave:1980). The argument that a "free market" works in Hong Kong has been seriously challenged. (Henderson:1990, Chiu:1993, Chen:1980, Lui and Chiu:1994) In the study of the politics of the laissez-faire policy of the colonial government, Chiu (1993) argues that through selective intervention, the colonial state has provided an institutional basis for industrial development in the post-war decades. The institutional bases like the rule of law, the provision of social services and public housing, and the land development policy have laid the foundation for the industrial take-off during the fifties and sixties. In other words, economic growth of Hong Kong cannot be understood as an outcome of a "free market".

The World-system perspective: This perspective takes the entire capitalist world system as an unit of analysis in the industrialization of developing countries. (So:1986:244) The world system thesis tries to dispute the free market and

culturalist explanations of the development of the NICs. It is argued that the changing nature of the entire capitalist world system has shaped the development pattern of Hong Kong's industry. For instance, the interaction between the world capitalist system and socialist China after the WW II shaped the development path of the Hong Kong economy. The Korean War in the early fifties forced Hong Kong to abandon its entrepot trade and to develop its own industries. The path of industrialization is conditioned and constrained by the opportunities and constraints imposed by the world capitalist system (So:1984). The strength of this perspective is that it highlights how the interactions between the global forces and domestic institutional factors shape the processes of industrialization and industrial restructuring in Hong Kong. (Lui and Chiu:1997:9) However, the world-system perspective is criticised for its core-determinism (Gilpin 1987). It directs us away from understanding the internal dynamics of the domestic economies and how local manufacturers are able to capitalize on the opportunities for their development.

The statist perspective: This takes the role of the state as the key to understanding economic development. Recently, there has been a surge of academic interest in analysing how the state facilitates capital accumulation and economic development (Castells:1983, 1987, Skopol:1985). It is argued that the "economic miracle" of the NICs is not due to the "invisible hand" as claimed by neo-classical economists, but rather driven by the developmental state. The central proposition of this perspective is that the process of transformation of industrial and economic structure is greatly determined by the state's policy. In the development experiences of the East Asian NICs, the states play a very significant role in shaping socio-economic development (Clark 1994, Deyo 1987).

There are several weaknesses in the statist approach. First, it underlines the role of the state in socio-economic transformation and focuses on the state capacity in shaping the development. But state capacity varies in different stages of development. Chiu and Levin (1993:7) argue that one of the shortcomings of the statist approach is that the state's capability to influence business decisions regarding restructuring is more likely to become limited as industrial capital becomes more mature and autonomous in the later stage of development.

Second, it is rather difficult to apply this perspective to the situation of Hong Kong. Hong Kong is not really a case of a pure "free market". But neither is it a case of a developmental state.

The Institutional-historical perspective: Chiu and Lui (1995) propose an institutional historical perspective to comprehend and explain the processes of industrialization and industrial restructuring in Hong Kong. Three sets of institutional variables are examined, namely the role of the colonial state in the industrialization process, the financial system, and capital-labour relation. Each phase of industrial development comes to constitute both the enabling and constraining structures for the development of manufacturing industries in the subsequent phase.

This perspective examines the strategy of local manufacturers in the restructuring process to which the political economy and world-system perspective fail to address. Their study on the electronics and garment industries in the early nineties demonstrates how these two industries are locked into labour-intensive production which is shaped and constrained by the existing institutional framework (Lui & Chiu, 1993, 1994 and 1997).

The strength of this approach is that it highlights the importance of institutional factors in shaping corporate responses to restructuring. However, I would suggest that their analysis stops at the institutional level and fails to examine the active role played by economic actors (that is, firms) in constituting the path of industrial restructuring. There are still some questions at the organizational level that are left unanswered. For instance, how do local manufacturers react to changes in the business environment? What is the mechanism that shapes the restructuring strategy of local manufacturers? I underline the need to go back to the organisational level of analysis in order to address the above questions.

To sum up, we can briefly conclude that the world system thesis underplays the importance of internal dynamics of the domestic economy and the statist perspective ignores the autonomy of local capital in shaping the process of industrial restructuring. Both fail to provide a satisfactory and adequate theoretical framework for us to understand the process and form of industrial restructuring in Hong Kong. The strength of the historical-institutional perspective lies in its emphasis on the historical constitution of economic development. However, I would like to supplement their analysis by bringing back the organizational level analysis into our discussion. As mentioned above, to unravel the social process of restructuring, I examine the interplay between the active agents and the institutional factors and also the interplay among different agents (economic organizations within the economy) in shaping the industrial restructuring process.

2.2. The Global Commodity Chain perspective

The Global Commodity Chain perspective addresses issues raised by Marxist development theories. Marxist development theories focus on historical-structural analysis of the international political economy. Under the new international

division of labour, large multinational corporations in the core countries exploit labour in developing countries and create a spatial segregation of production processes in the world economy (Fobel et al 1981). The semi-periphery region is defined as an intermediate stratum between core and peripheral nations that promotes the stability and legitimacy of the three-tiered global economy. The East Asian NICs, as part of the semi-periphery region, have the capacity to resist peripheralization but not the ability to move to the core. (Wallerstein:1974) Without probing into details about the Marxist tradition in the development literature, one of the major criticisms is that it fails to explain the development trajectories of the NICs like the East Asian Four Dragons.(Gereffi:1991) The East Asian NICs have the capacity to manage and negotiate dependency to upgrade their economic activities. Gereffi suggests that when the NICs play the role of component supplier and are connected to the world economy through commercial subcontracting, local manufacturing industries can enjoy more autonomy in their development.

Gereffi puts forward his idea of the Global Commodity Chains (GCCs) to address the issue of economic development trajectory of the nations. Global commodity chain has been defined as,

“A network of labor and production process whose end result is a finished commodity.” (Hopkins and Wallerstein:1985:159) All firms or other units of production receive inputs and outputs. Their transformation of input that results in outputs locates them within a commodity chain. (or quite often within multiple commodity chains.”(Hopkins & Wallerstein:1994:17)

Gereffi and Korzeniewicz elaborate that,

“GCC consists of “nodes”, or operations that comprise pivotal points in the production process: supply of raw materials, production, export and marketing. Each node is itself a network, connected to different nodes concerned with related activities. Such export networks are increasingly important in the contemporary global manufacturing system, resulting in a new logic of transnational integration based on geographical specialization and tightly linked international sourcing.” (Gereffi & Korzeniewicz:1990)

Gereffi tries to analyse the coordination of industrial capital and commercial capital in the organization of economic activity in the GCCs. The commodity chain links up the economic activities of firms to technological and organisational networks that permit firms to develop different commodities. Gereffi and Hamilton recently apply the concept of “product world” to conceptualise complexities of the commodity chain - the sequencing and co-ordination of steps of production, the levels and types of technology used in each step, the types of economic actors performing the steps, and the “conventions” that allow for co-operative efforts among diverse sets of actors in production. (Gereffi and Hamilton:1996) In this process, the commodity chain consists of actual networks of firms that create different types of product worlds. Put it in a simple way, it draws attention to how raw materials can be transformed into final commodity in the entire commodity chain through the cooperation and interaction of the economic actors in every step of production.

There are four dimensions in the GCCs. First, an input-output structure in which there is a set of products, services, and resources that are linked together in a sequence of value-added activities across a range of relevant industries. Second, there is a territoriality dimension in which spatial dispersion or concentration of production and marketing are carried out in the semi-periphery zones, core countries and periphery countries. Third, there is a governance structure of authority and power relationship between firms that determines how financial, material, and human resources are allocated and flow within a chain. (Storper & Harrison 1991, Gereffi:1994, 1995) Fourth, there is an institutional framework that identifies how local, national, and international conditions and policies shape the globalization process at each stage in the chain. The governance structure is

significant to the coordination of transnational production systems. In describing the patterns of the coordination of globalized economic activities, Gereffi has identified two types of commodity chains. They are the producer-driven chain and the buyer-driven commodity chain.

Producer-driven commodity chain

Producer-driven commodity chain are usually found in those industries in which large-scale multinational groups or enterprises play a central and significant role in coordinating the production activities, through both backward and forward linkage in the global commodity chain. The technology-oriented and capital-intensive industries like computer, automobiles, electronics industry are usually classified under this category. The transnational corporation carries out the research and design processes for product innovation in the headquarters of the core countries and then shifts the labor-intensive processes to developing countries (Gereffi & Hamilton:1996, Henderson:1989). The overseas subcontractors become the component suppliers by doing original equipment manufacturing (OEM) for the producer. The control of the technological, production and distribution activities are totally in hands of the multinational groups in the core countries. In this light, industrial capital becomes the driver of the GCCs and the multinational corporations from the core countries have the central control of production activities.

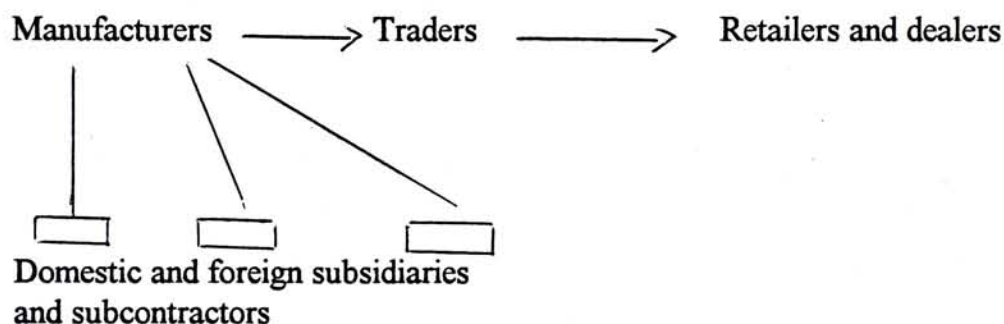
Buyer-driven commodity chain

Another governance structure is the buyer-driven commodity chain. It is the buyers or the business-led buyers who coordinate the production and trading activities through an international subcontracting network in the buyer-driven global commodity chain. This is found in industries where in large retailers,

brand-name merchandisers, and trading companies play an active role in setting up decentralized production networks in different export countries. It is very commonly found in most labour-intensive industries producing consumer or non-durable goods like footwear and apparel. (Gereffi:1994). The retailers and brand-name merchandisers do not own any manufacturing facilities themselves; rather they depend on international subcontracting. The overseas buying offices, agents or the trading houses serve as a mediator for the buyers to manage production.

To briefly sum up the key elements of producer-driven and buyer-driven commodity chains, the governance structure of the two GCCs can be described as followings:

1. Producer-driven commodity chains (industries like automobiles, computers, electrical machinery)



2. Buyer-driven commodity chains (light industries like garments, footwear, toys)

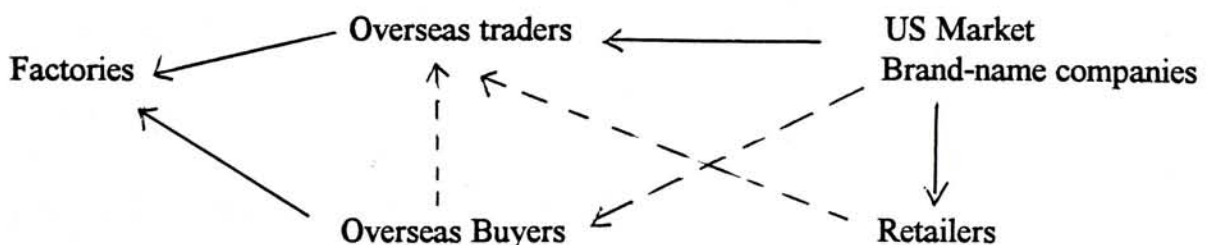


Diagram 2.1. The organisation of producer-driven and buyer-driven global commodity chains. Solid arrows indicate the primary relationships; dashed arrows show secondary relationships. Source: Gereffi, 1994:98

The main distinction between the buyer and the producer-driven commodity chain is the difference in capital logic in organising the global production and

trading network and how profit is accrued in the commodity chain. The former emphasises the trade-led industrialization path while the latter on the producer's side. Under the governance structure of the buyer-driven GCCs, the buyer plays a critical role in shaping the production network.

2.2.2. Studies on the buyer-driven GCCs

In this section, I would review the GCCs perspective (particularly that of the buyer-driven GCC) and its relevance to development theories. I concentrate on the review of the buyer-driven GCCs because it is more relevant to my analysis of the garment industry, a labour-intensive industry having the key characteristics of the buyer-driven GCCs. There are several themes in the GCCs studies including the examination of the buyers' role in shaping the production network and the organisation of production network within a domestic node in the commodity chain. I will review its main arguments and try to assess the strengths and weaknesses of the GCCs framework. Then, I outline how my study would contribute to the theoretical construction of the GCCs framework.

To demonstrate how big buyers in the core countries have a dominating and crucial role in shaping the global production network, Gereffi and his colleagues examine the role of buyers and their function in the commodity chain. Korzeniewicz studies the development of the Nike corporation and how changes in marketing and consumption patterns in the core countries help to shape production patterns in the periphery and semiperiphery countries. (Korzeniewicz:1994:) Starting from a social organisational perspective, Korzeniewicz emphasises the organisational development of the Nike Corporation and its tie with the Japanese producers during the early sixties. Then the Nike Corporation shifted their production to South Korea and Taiwan and built up close

relationships with the manufacturers in these countries during the mid seventies. As a big buyer in the athletic shoe industry, the Nike Corporation has a spatial division of labour in producing different types of shoes with different price ranges. They are the developed partners, volume producers and developing sources, located either in the developed, semi-peripheral or peripheral countries. Different types of overseas suppliers are classified on the basis of sophistication of the products as well as the price ranges. The developed partners are responsible for making innovative and upper-tier products. The volume producers are those manufacturers doing a specific type of product in large quantities and typically less flexible than developed partners in their organization of production. Finally, developing sources are the new manufacturers that attract Nike Corporation because of their low labour cost. Then, the social organisation of production network in the dependent economy is initiated by the Nike Corporation. In this process, the Nike Corporation (buyer) can maintain its competitive edge by strengthening its distribution network through the strategic alliance with the retailers while maintaining control over the overseas subcontractors in a stratified production system. (Korzenewicz:1994:225)

The study demonstrates how market segmentation affects the social organisation of production. Although the study does not place much emphasis on the inter-firm linkages between Nike Corporation and its overseas suppliers, it leads us to look at the ties between the buyers and suppliers. In this case, the Nike Corporation maintains quite a close control of the production network in the commodity chain, i.e. a close-tie relationship with the overseas suppliers. In this manner, the buyer (the Nike Corporation) plays a crucial and dominating role in shaping the production network for the footwear industry. Besides, the

knowledge transfer of product innovation (the upper-end suppliers) and the volume producers (South Korea and Taiwan) enable first-tier producers in the semiperipheral to be responsive to the global economy. In some cases, the buyer even assists the first-tier producers to set up factories in a dependent economy like China.

Other studies using the GCCs perspective also focus on how big buyers shape the global production network. Gereffi (1994) studies how big retailers in the apparel industry in the United States shape the global production network at different stages of production. There are different market niches for apparel production and the producers serving different niches, different retailing and global sourcing strategy. Big buyers like the brand-named companies or mass merchandisers find their overseas suppliers through a dense production network, according to the cost advantages and quality requirement. Appelbaum and Smith (1996) further elaborate on the argument of the GCCs thesis and study how global restructuring shapes the industrial location of the garment industries in Hong Kong and South Korea. They suggested that under the keen competition among the NICs, local producers rely on flexibility in mediating the nodes in the commodity chain. Besides, they argue that the actions and decisions of the key actors are embedded in transnational and personal social networks in the NICs.

The second major theme of the GCCs studies is about how different types of interfirm linkages among different economic actors within the commodity chain shape the global production network. Donaghu and Barff (1990) study the international subcontracting network in athletic footwear production and use their findings to throw lights on the new international division of labour thesis and address the issues brought into the debate about the post-Fordist form of global

production. Although they do not apply the GCCs perspective in their study of athletic footwear production, their analysis, focusing on international subcontracting, can be easily appropriated and interpreted in the light of the GCCs approach. Like Korzenewicz's study, they analyse the historical development of Nike Corporation and how it maintains close ties with a core group of affiliated factories in Taiwan and South Korea. Nike has different levels of ties with its subcontractors. It assists the first-tier producers in South Korea and Taiwan in the factory set-up, training, production methods, joint product development activities. In this manner, they maintain a very close tie with each other. (Donaghu and Baraff:1990:541) Its ties with the volume producers are different. The volume producers do not supply high-end products and they also supply footwear for other branded footwear companies. The relationship between Nike and the volume producers is relatively loose when compared with the first-tier producers.

The second-tier producers form a network of material and components suppliers to support the first-tier production. There exists a complementary subcontracting relationship between the first-tier and second-tier producers in the production network.

To sum up, the study illustrates that there exists different types of ties between buyers and their suppliers in the global production network of the athletic footwear industry. A closer scrutiny of the linkages between the buyer (NIKE) and the first-tier producers and those between first-tier producers and second-tier producers directs us to understand how different economic actors are connected in the global commodity chain.

The third major theme of the GCCs studies is about the interplay of global and local factors in the operation of the commodity chains. (Korzeniewicz:1992,

Pan:1996) For instance, Korzeniewicz examines why the Brazilian leather footwear industry can be successful in the retail market of the United States (1992:313-27). It is found that the industry has the support of good quality leather from Argentina and it has high a flexible production network in Brazil. Most of the shoe manufacturers in Brazil are concentrated in an industrial district and their common ethnic background is German. He describes that this common background enables the producers and suppliers to have "competitive collectivism" which enhances their competitive edge through the sharing of information and technology in the dense social networks. They also enjoy a close and symbiotic relationship with the traders in the industry. (Korzeniewicz:1990:320) To sum up, it emphasizes the need to bring domestic political economy context as well as other social factors (like ethnic background, culture) back into the analysis of the shaping of the production network and how the domestic economy is inserted into the world system.

Other studies focus on the social organisation of production network within a domestic node in the commodity chain. Pan (1996) compares the sectoral difference of the governance structure between apparel and computer industry in Taiwan. Using the GCCs perspective, she tries to explain how technology and social institution affect the organisation of production network in these two industries. She identifies two forms of division of labour in production, namely the "horizontal" and "vertical" division of labour. Horizontal network means that the apparel producers depend on capacity subcontracting, which is anchored in the established social ties. The vertical network in the computer industry is based on specialized subcontracting. Such distinction helps us to understand the organisation of production network in a domestic node under the buyer-driven and

producer-driven network. However, it has little to say about the nature of the network. Gereffi argues that there is authority and power relationship in the governance structure that affects the allocation of human, material and financial resources in the GCCs. This implies that buyers in the core countries are critical in shaping the global production network. When Pan describes the characteristics of "horizontal" network between the first-tier producers and subcontractors in the GCCs, it is valid to characterize it as "horizontal" from the viewpoint of division of labour. However, such characterization tells us little about the power relationship among the buyer, the first-tier producers and the subcontractors in the GCCs. In other words, the relationship between different economic actors in the GCCs has to be examined in order to have a clearer picture on the nature of the network and its implications to the structuring of the GCCs.

The above studies highlight several aspects of the GCCs perspective. Briefly, they demonstrate the effects of commercial and industrial capitals in shaping the social organisation of production network and how different forms of interfirm linkage between buyers and first-tier producers can enhance the competitiveness of domestic producers. Also, it brings the local political economy and institutional factors back into our discussion of why a nation can occupy a specific position in the world economy. In the following section, I examine the strengths and limitations of the GCCs approach.

2.2.3. Strength and limitations of the GCCs approach

The Global Commodity Chain approach emphasizes the need to look at the social organisational dimension of economic activity at different levels (i.e. world-economy, policies and institutions at the national level and the social bases of competitiveness at the local level). It tries to engage in a dialogue with the

Marxist tradition of studying the developmental trajectories of the peripheral and semiperipheral countries and to highlight the central role of industrial capital and commercial capitals in the global economy.

"Specific processes or segments within a commodity chain can be represented as boxes or nodes, linked together in networks. Each successive node within a commodity chain involves the acquisition and/or organization of inputs (e.g. raw materials or semifinished products), labor power (and its provisioning), transportation, distribution (via markets or transfer), and consumption. The analysis of commodity chain shows how production, distribution, and consumption are shaped by the social relations (including organization) that characterize the sequential stages of input acquisition, manufacturing, distribution, marketing and consumption." (Gereffi, Korzeniewicz and Korzeniewicz:1994:2)

This perspective underlines the social configuration of economic action. The accrual of surplus in the commodity chain does not lie solely in the production-based activities. This is why the GCCs approach also tries to address value-added activities and flow of capital in the process of marketing, distribution and retailing for commodity production and circulation. This is different from the Marxist tradition which is essentially production-based. As Lui and Chiu (1997) put it, "The analytical framework of GCCs perspective has gone beyond a production-centered analysis and broadens our theoretical orientation in analysing the organisation of economic activities."

Second, the GCCs perspective can be bridged to network analysis and makes use of the latter to comprehend the constitution of economic activity embedded in network or "nodes" within the GCCs. This provides us with a starting point to examine how different economic actors are connected and act collectively in the commodity chain.

The commodity chain perspective alerts us to the need of examining the nature of inter-firm linkage in the networks of the GCCs. As suggested by Gereffi and Hamilton,

"the ties linking actors each other that have a repetitive character... then we need to define networks among economic actors in substantive terms.... It is not merely the fact of a connection, but more particularly the nature of the substantive ties that renders economic activity of network more or less predictable from the viewpoint of participants." (Hamilton and Gereffi:1996:8)

To sum up, I would suggest that the GCCs perspective can depart from the Marxist political economy analysis and serves as an analytical tool to comprehend the developmental trajectories and the possibility of mobility of semiperipheral and peripheral countries. By highlighting the importance of industrial and commercial capitals in the GCCs, it further helps us to go beyond a production-centered analysis and move on to understand the connection of the economic organisations and actors as different segments or networks in the commodity chain.

However, there are several limitations in this approach. First, Gereffi maintains that the buyers are a driving force in shaping of the global production network under the buyer-driven GCCs. I would rather suggest that there is a need to examine the role of domestic manufacturers and their interaction with buyers in our analysis of the forces that influence and shape the organisation of production network. One of the limitations of the buyer-driven GCCs perspective is that Gereffi places too much emphasis on the buyers' side (commercial capital) and leaves out other important economic actors in the analysis of the GCCs. For instance, as mentioned above, the study of buyer-driven commodity chain concentrates on the buyer-side and their role in distribution, marketing and production. Domestic manufacturers' role in the semi-peripheral countries is left unexamined. Gereffi suggests that manufacturers (suppliers) have different modes of incorporation in the commodity chain in which there is a possibility for them to move up the GCCs. But then he does not clearly explain how the interaction between the manufacturers and buyers would shape the social

organisation of production in the commodity chain. Here I argue that it is important for us to examine the active role played by economic agents and to what extent and under what conditions buyers shape the social organisation of production in the semiperiphery zones. When they organise the production network in a domestic node, are the domestic producers' action and decision structured and conditioned by the buyers' side? Put it in a simple way, from a viewpoint of domestic manufacturers in the commodity chain, how are the first-tier producers collectively connected with the overseas buyers in the commodity chain? How do these ties affect the organisation of production in a domestic node? These questions have been left unexamined in Gereffi's framework.

I would like to argue that it is important for us to examine the active role played by local manufacturers in the context of industrial restructuring of Hong Kong. It is the local manufacturers (as the first-tier producer in the commodity chain) who face the challenges from the surging pressures both from the protectionism and keen competition from other low-cost countries. In an examination of how the economic organisation responds to and changes in the global economy, the GCCs perspective is only relevant to a macro level analysis. The GCCs approach is inadequate to provide a middle-range theoretical framework for us to explain the actual experience of restructuring in Hong Kong. (Lui and Chiu:1997)

Bringing back organisation to our analysis

As stated above, the Global Commodity Chain approach cannot give us a satisfactory framework to explain the experience of industrial restructuring in Hong Kong. However, it serves to remind us of the significance of the social processes of the organization of economic activity at the global level. Following this hint, I would suggest that bringing back the organisational level of analysis is

important for us to understand Hong Kong's industrial restructuring process. Among various perspectives in organization studies, two perspectives are found particularly relevant. I shall discuss the resource dependency perspective and the neo-institutionalist perspective in organisation theory.

The resource dependency perspective (Pfeffer and Salancik:1978) concerns at how an organization maintains its survival in an environment through interacting with other social actors (or other organizations). This perspective assumes that an organization is not self-directed and independent of the external environments. In this process, they need to depend on other organizations for resources. It also interacts with other organizations in order to accomplish the goals. (Pfeffer and Salancik:1978:2-19)

Once they require resources from other organizations, this implies the organization who possess resources can exert control and power over the focal organization. This is because resources possessed by the influencer are critical to the organization. This creates a dependent relationship between the organizations. However, on the other hand, the organization will try to avoid dependency by seeking various ways to cope with the control and to enhance its autonomy. (Pfeffer and Salancik:1978:257). Pfeffer and Salancik introduced the concept of "external control of organization" to describe the dependent and power relationship between the organizations.

The concept of "external control of the organization" is defined as "the ability to initiate activity at one's discretion." (Pfeffer and Salancik:1978:259) Organizations generally will tend to be influenced by those who control the resources they require.

Peffer and Salancik suggest that "Social control involves a process in which both the influencer and the focal organization act to affect the conditions governing the influencing process."(1978:45) They propose that constraints on organizational behaviour result from situations of asymmetric interdependence, when there exists the discretion to control resources and enforce demands and when the focal organization's behaviour is not already constrained.

Following this hint, it is noted that social control between organizations is not a static process. Instead, the organizations attempt to alter the conditions of being controlled and seek look for more autonomy in the environments. The management of the organizations are aware of the need to develop strategies to acquire the resources and to loosen the dependency upon other social actors. The interaction with other social actors, therefore, involves a dynamic sequence of actions and reactions leading to variations in control and discretion.(Pfeffer and Salancik:1978)

Without probing further into the resource dependency theory, this perspective provides us with insights to examine the relationship between domestic manufacturers and overseas buyers in the commodity chains. As suggested by Gereffi, there is a power and authority relationship inside the buyer-driven governance structure. However, he has not clearly spelled out the social process of the interorganizational influences between domestic manufacturers and buyers. The conditions of power and control over the manufacturers by overseas buyers need to be examined. Besides, as suggested by resource dependency theory, the social actor of organization tries to seek more autonomy to avoid control from other organizations.

While the resource dependency perspective deals with the interorganizational influences to uncover the dynamics of the power and dependence relationship among organizations, there are some cases in which the social actors of the organizations try to learn from other organizations when coping with external demands. The neo-institutionalist perspective is relevant to tackle this phenomena.

One of the major concerns of the neo-institutionalist approach in organisation theory is to look at the relationship between symbol and practice of organization. (1991) In this light, neo-institutionalist organisational theory is relevant to our discussion here.

One of the major concerns of neo-institutionalist theorists is why organisations in modern society become homogenized instead of becoming diverse during the course of development. They contend that efficiency arguments cannot fully explain the homogenization of the organisation; instead, there are other sources (like rituals and symbols) of organisational change. The concept that captures the process of homogenisation is called "isomorphism", a continuing process that forces one unit in a population to resemble other units that face the same set of environment conditions. (Powell and DiMaggio:1994:66) Powell and DiMaggio have identified two types of isomorphism in modern organization. One is the competitive isomorphism which represents organisational changes coming from system rationality that emphasises market competition, niche change, and fitness. The second type of isomorphism is institutional isomorphism. Here, organisation does not only compete for resources and customers, but also political power and institutional legitimacy. Neo- institutionalist theorists place emphasis on "institutional isomorphism" in order to explain how organisations resemble

each other. (Powell and DiMaggio:1991)

Three mechanisms of institutional isomorphism have been identified. First, coercive isomorphism. The source of organizational homogenization is derived from formal or informal pressure exerted on organisation. For example, superior organisation can exert pressure or authority to coerce the dependent organisation to follow its action.

The second mechanism is “mimetic isomorphism”. Uncertainty is a powerful force in driving organisation to model other organisations’ practice when they perceive the modelled organisation as successful. Powell and DiMaggio explain that usually when the organisation technologies are poorly understood, goals are unambiguous or when the environment creates symbolic uncertainty, then it is more likely for organisations to converge. (Powell and DiMaggio:1991:69-70)

The last mechanism is “normative isomorphism”, which stems primarily from professionalization. Powell suggests that professionalization process itself is a way for the profession to establish a cognitive base and legitimatization for their occupational autonomy.

Without probing further into neo-institutionalist theory, here it is suffice to say that the concept of isomorphism suggested by Powell and DiMaggio provides some insights for us to comprehend the pattern of industrial restructuring in Hong Kong. Why is “industrial relocation” often perceived as a “taken-for-granted” restructuring strategy among garment manufacturers? It is observed that there is a homogenisation process in industrial restructuring. It is worthwhile to examine what are the sources of organisational homogeneity in relocation. Besides, the concept of “coercive isomorphism” has implied a dependence relationship between the economic actors. Pertinent to our discussion of global commodity chains, it is

important to note the power and dependence relationship between buyers and domestic manufacturers in the domestic node in the buyer-driven governance structure. In our discussion of a homogenisation of restructuring strategy among local manufacturers, it is interesting to ask: do foreign buyers become "coercive" by persuading local manufacturers to relocate? Under what kind of condition will such "coercive isomorphism" occur? If it is not the buyer who persuades local manufacturers to relocate, then is it "mimetic isomorphism" that drives manufacturers toward the same response to uncertainty?

This leads to my second point about the weakness of the GCCs perspective. My point is that Gereffi fails to give a substantive account of the content and nature of networks among the economic actors in the buyer-driven governance structure. He argues that there is authority and power relationship inside the governance structure. However, Gereffi has not clearly spelled out the substance of the governance structure and its characteristics. As he put it,

"Network is a set of units (or nodes) of some kind and the relations of specific types that occur among them. The form of network refers to the overall configurations of relations in the networks or parts... These properties, applied to the analysis of the GCCs, include the length of a chain, the density of interaction in a particular segment, and the depth or number of levels that occur at different stages of a GCC. (Gereffi, M. Korzeniewicz and R.P.Korzeniewicz:1996:7)

I would like to suggest that this network, constituted by the buyers and the first-tier producers, is important for our understanding of the critical role played by the buyer in shaping the global production network under the GCCs. Interfirm linkage within each "node" in the buyer-driven GCC represents how different types of economic actors are socially connected and how power relationship and authority emerge in the node. Gereffi maintains that globalization actually reinforces the localization processes in the world economy and places great emphasis on the authority and power relationship inside the governance structure

in the GCCs. This in turn affects the allocation of human, material, and financial resources in the GCCs. However, how is this kind of relationship shown in the governance structure? What is the nature of interactions among different economic actors in the commodity chain? How would this kind of connection affect the organisation of production in the GCCs?

This leads to my analysis of bringing the domestic context back to our discussion of the buyer-driven commodity chain. I argue that there is still a gap in Gereffi's analysis of the nature of interfirm linkages. It is necessary for us to uncover the nature and diversity of interfirm linkages in each of the nodes within a domestic node in the global commodity chain. The diversity of interfirm linkages is rooted in structures of social relations in the domestic context.

My study addresses issues raised by the GCCs perspective. Through an examination of the nature of interfirm linkage among domestic manufacturers and overseas buyers, I probe how such ties affect the organisation of production network in the course of industrial restructuring in Hong Kong. I also discuss the forms of organizational "isomorphism" emerged in the restructuring process.

This leads to my third point: how is the domestic node connected into the world economy in the buyer-driven GCCs? How can we explain why a nation manages to occupy a specific position in the global economy? Gereffi suggests that first-tier producers can enhance their competitive edge through the learning experience derived from OEM and it is possible for local manufacturers to move from OEM to the ODM(original design manufacturing) or OBM (original brand manufacturing). This upgrading gives rise to the possibility of upward mobility of semi-peripheral economies to the core in the commodity chain. Besides, some first-tier producers manage to change their role into middleman for buyers and

producers in the dependent economy through “triangular manufacturing”. Also, I would like to examine how different types of ties with buyers shape the social outcomes of industrial restructuring in Hong Kong.

Concluding Remarks

To sum up, the GCCs perspective provides some insights for our analysis of industrial restructuring of Hong Kong. First, it departs from orthodox Marxist analysis and goes beyond a production-based framework. Second, it highlights the importance of commercial and industrial capital in shaping the global production network. Third, he tries to explain the possibility of upward mobility of the semi-periphery economies. However, that said, I would suggest that my study can contribute to a refinement of the GCCs approach by departing from the core-centre views and bringing back the role of local manufacturers to our discussion of the GCCs. By uncovering the nature of interfirm linkage between buyers and local manufacturers within a domestic node, my study sheds lights on the substance of the governance structure of the buyer-driven GCCs by using the resource dependency perspective. It looks at the questions of to what extent and under what conditions are buyers influential in shaping the production network. Besides, I would suggest that by unravelling the diversity of interfirm linkages, it helps us to shed lights on how different patterns of ties with buyers affect the restructuring strategy of local manufacturers and the social organization of production in the commodity chain and what kind of social outcomes that it will bring about. I will also show how the concept of “isomorphism” is relevant to our analysis of the restructuring process.

Chapter Three:

The historical development of the Hong Kong's garment industry after the post-war period

In this chapter, I would like to outline the development of garment making in Hong Kong in the post-war decades. The garment industry reached its peak in the mid-1970's in terms of its gross output, number of establishments and the number of persons engaged in the industry. It was not until 1988 when the industry began to shrink and reached a state of decline. While some firms succeed to move up the ladder of global commodity chains by doing the OBM, many strive hard to survive. In the following section, I would like to describe the characteristics of the industry from a historical-institutional perspective. It is intended as a background for subsequent discussion on industrial restructuring in the next chapter.

3.1. The industrial take-off after the post-war era

In the manufacturing sector, the garment industry has been the largest industry in Hong Kong in terms of gross output, employment, and domestic exports since the early 1960's. In 1995, there were 4,926 establishments that accounted for 15.8 per cent of the total manufacturing establishments, employing 111,917 workers (29 per cent of the total manufacturing employment) (See Table 3.1)

As an open and dependent economy, Hong Kong is subject to changes in the global economy. In the pre-war period, the garment industry only served local consumption and its products were simple-designed and low-end. (Hong Kong Fashion History). Before the outbreak of the Korean War in 1951, Hong Kong was an entrepot for China.¹ Then, the embargo on China seriously disrupted the entrepot trade of the territory. In the meantime, rapid expansion in the world market opened opportunity for

industrialization through the export-led strategy. The manufacturing sector experienced a rapid growth in the post-war decades in terms of gross domestic product and employment. (Table 3.2 & 3.3) It was the largest single contributor to the Hong Kong's GDP until 1987 when the service sector (wholesales, retail, Import/Export trades, restaurants and hotels) overtook manufacturing. In 1994, the manufacturing sector was the fifth rank and accounted for only 9.2 per cent of the GDP. (Table 3.3)

In 1950, the garment industry consisted of only 41 establishments (2.8 per cent of the total manufacturing establishments) and employed 1944 workers. (2.4 per cent of the total manufacturing employment). (Table 3.1) Generally speaking, the industry was divided into two segments: cut-and-sewn and the piece-knitted garments. Local manufacturers had to depend on local trading houses and Indian firms to obtain orders from overseas buyers. Most of the local manufacturers did not know English and did not have any direct connections with overseas buyers. (HK Fashion History:1992:109) They were incorporated in the world economy through the international subcontracting network. Local trading firms or buying offices acted as middlemen and related orders to local manufacturers. (Chu:1988, Yau:1995) The orders were low-end, simple-style like plain shirts and jeans, and mass volume products for South East Asia, the Middle East, Africa and United Kingdom markets. During the early 1950's, British firms benefited from the British Commonwealth Preferential Tariff. Many British companies would like to source garments from Hong Kong at that time. In the mid 1950's, local manufacturers and trading houses began to explore the market in the United States. British firms became less significant when the US became the major export market for local manufacturers. (Industry Department:1996:61) By the 1970's

¹ The major income source in Hong Kong was entrepot trade and reexports. In 1950, it was estimated that re-exports accounted for 89 per cent of the total exports. (Chen:1982)

Hong Kong was an important source of manufacturing products for the US markets (Bonacich & Waller:1994:5)

Rising protectionism from developed countries during sixties to seventies

Beginning from the early 1960's, the United Kingdom and other European countries imposed export quotas on Hong Kong's garment products. Then the United States followed accordingly. In 1962, the United States made use of the clauses in the General Agreement on Tariffs and Trade (GATT) and Hong Kong was compelled to sign an agreement to restrict the garment exports from Hong Kong to the US. (Hong Kong Fashion History:1992:111) After signing the agreement, it was decided that quotas were to be equally distributed between local garment manufacturers and trading firms. Quotas were allocated according to past export performance, which was calculated twenty months backward from January 1964. This method is still in use today. Hong Kong's garment industry was constrained by the multi-fabric arrangement (MFA) in 1974. This placed Hong Kong under a monitoring system from the United States and other European countries. (Lau & Chan:1994:117) The quota system and multi-lateral agreements with other developed countries, to a certain extent, are both constraints and protection for local manufacturers. It is because the industry faced ceiling restrictions from the major markets that might hinder the scope for expansion of the industry. (Industry Department:1995) But at the same time quota allocation gives a quantity assurance of the export volume and serves as a protection from other low-cost developing countries.

3.2. Dominance of local capital and small-scale establishments in the industry

The garment industry is characterized by the predominance of local small-sized establishments. In the 1990's the average number of persons per garment making establishments is 23 persons while for the manufacturing sector it is 12 persons.

Garment-making is the largest employer among the manufacturing industries in the past twenty years. The industry reached the peak in mid-1970's as the number of garment establishments started to rise to a peak of 10,565 in 1987 (25.9 per cent of all manufacturing establishments), employing 298,377 workers (represented 37.9 per cent of the manufacturing workforce). (Table 3.1)

Foreign capital plays an insignificant in the garment industry. In 1995, only 9.3 per cent of garment making establishments were owned by foreign capital.

Although Hong Kong's garment industry enjoyed rapid growth in the past decades, it suffers from the erosion of its previous advantages such as low production cost, and increasing wave of protectionism of other developed countries. In the mid 1970's, garment manufacturers complained about labor shortage and called for government action for provision of training. In 1975 the Clothing Industry Training Authority was established in order to tackle the manpower problem. In 1977, the government appointed an advisory committee to examine the possibility of industrial diversification and upgrading for manufacturing. In the report, the government recognized that increasing trade restrictions imposed on textiles and clothing industries "add new urgency to the long-term desirability of broadening our industrial base." (TACD, 1979:6) It reviewed the government's role in land policy, finance, education and training. It also called for a governmental action to increase land supply for industrial development. However, this report was outdated when China launched its open policy in 1978. This led to the revival of entrepot trade. The report was criticized on the ground that no concrete plans were designed to achieve the proposed reforms. (Chen & Li: 1988:137) Due to the changing economic climate, the call for industrial diversification gradually faded out in public debate.

3.3. The continuation of low-wage manufacturing in the eighties

Hong Kong's economy experienced a restructuring process in the 1980's. The tertiary sector assumed a leading role in the economy and there is significant decline in the manufacturing sector. The share of the gross domestic product (GDP) of the manufacturing sector fell to only 9.2 per cent of the total GDP in 1994. The same pattern is found in the garment industry. Although Hong Kong is the world's third largest clothing exporter, the garment industry lost its relative importance in terms of the value added in the past decades. (its share decreased from 25 per cent of the total for the manufacturing sector in 1981 to 20 per cent in 1991).² (CSD:1993:114) During the past ten years, productivity of the industry, measured in terms of value added per person engaged, was below the average of all manufacturing industries. Its productivity increased at an average rate of 11 per cent, which was still far behind the figures of other manufacturing industries in 1994. (See table 3.4)

The industry suffers from escalating production costs. It is increasingly difficult to compete with other newly developed countries. Overseas buyers no longer find Hong Kong's garment industry competitive. Compared with other Asian NICs and Latin America, in terms of production cost per standard hour, other countries have more favourable cost structures. Hong Kong was ranked second in the ladder of high production costs Asian countries, just below Taiwan. (KSA:1996:27-33, Table 3.5)

Despite of the difficulties faced by the industry, the government is slow to respond the changes and is reluctant to assist the industry. In response to the tight labour supply and rising production cost, the Trade Department introduced the outward

² Value added is obtained by deducting intermediary inputs (like cost of brought-in raw materials and components, payments for industrial services and other operating expenses) from gross output. It thus measures the value which manufacturing establishments have "added" to these bought-in materials and components. Conceptually, it covers the values of input of labor and input of capital and entrepreneur. (CSD:1993:114)

processing arrangement (OPA) under the rule of origins during the mid eighties which allows part of the garment products to be processed in China. Official statistics show that outward processing in China is becoming very important. In 1989, the re-exports to China for outward processing was HK\$17,868 millions and in 1994 HK\$46,447 millions, representing an increase of 159 per cent of the outward processing activities for the industry. (Table 3.6.1 and 3.6.2) The massive relocation and the outward processing activities in South China by local manufacturers show that the industry capitalizes on the supply of cheap labour in South China. In a recent consultant report produced by a group of the MIT experts, one of the problems of the garment industry is its reliance on low-wage manufacturing by utilizing cheap labour in South China. But it is difficult for Hong Kong's garment manufacturers to rely on such strategy for competing with other NICs.

3.4. Concluding Remarks

This chapter gives a brief account of the historical development of the garment industry in Hong Kong. It is also my contention that the industry remains labour-intensive and increasingly turns to relocation to cope with the problem of rising production costs.

Year	No. of establishment	Persons engaged In the industry	Average no. of persons engaged per establishment in all manufacturing industries	Average no. of persons engaged in garment industry
1950	41	1944	55	47
1955	99	4261	45	43
1960	970	51918	41	54
1965	1514	87454	39	58
1970	3491	158025	33	45
1975	8047	257595	22	32
1980	9499	275818	20	29
1985	10307	292789	18	28
1986	10392	299932	18	29
1987	10565	298377	17	28
1988	10412	286659	17	28
1989	9672	274732	16	28
1990	9746	251746	15	26
1991	8837	224925	14	25
1992	6980	167607	14	27
1993	6943	167273	13	24
1994	5628	137287	13	24
1995	4928	111917	12	23
1996	4016	89,112	n.a.	n.a.

Table 3.1.: No. of establishments, persons average in the industry, average number of persons engaged per establishment of the garment industry and average number of persons in all manufacturing industries from 1950 to 1996, selected years

source: Hong Kong Industry Department, Hong Kong's Manufacturing Industry, various years
Hong Kong Trade Development Council 1997, *Profiles of Hong Kong's Major Manufacturing Industries* (1997:12)

Year	Manufacturing		Wholesale, retail, export/import trades, restaurants and hotels		Financing, insurance, real estates and business services	Community, social and personal services	Transport, storage and communication
1961	476	(40%)	131	11%	#	265	87
1971	677	(42.8%)	182	11.5%	26	312	115
1980	892	(46%)	447	23.1%	127	167	75
1985	849	(39.2%)	590	27.2%	179	203	95
1986	870	(38.9%)	615	27.5%	191	207	98
1987	875	(37.8%)	648	28%	210	214	104
1988	845	(35.5%)	698	29.3%	231	222	113
1989	803	(33%)	758	31.1%	249	234	125
1990	730	(29.5%)	815	33%	273	250	130
1991	655	(26.4%)	880	35.4%	289	262	131
1992	571	(23.3%)	907	37%	308	263	144
1993	508	(20.5%)	958	38.7%	336	275	153
1994	438	(17.1%)	1051	41%	361	292	166
1995	386	(15.5%)	1031	40.9	375	298	170

Table 3.2.: Number of Persons engaged by major Economic Sectors, 1961-1995, selected years

Source: Hong Kong Industry Department, *Hong Kong's Manufacturing Industries*, various years

#Figures have been included under wholesale, retail and import/export trades, restaurants and hotels

Year	Manufacturing	Financing, insurance, estates and business services	Wholesale, retail, import/export, trades, restaurants and hotels	Community , social and personal services	Transport, storage and communities	others
1961	23.6	17.4	21.9	15.3	9.6	12.3
1970	30.9	14.9	19.6	18	7.6	8.9
1975	26.9	17	20.7	18.7	7.2	9.5
1980	23.7	23	21.4	12.1	7.4	12.4
1984	24.3	15.6	23.1	15.4	7.8	13.7
1985	22.1	16	22.8	16.7	8.1	14.3
1986	22.6	17	22.3	16	8.1	13.9
1987	22	17.9	24.3	14.5	8.6	12.7
1988	20.5	18.9	25.1	13.9	9.1	12.5
1989	19.3	19.5	25	14.1	8.9	13
1990	17.6	20.2	25.2	14.5	9.5	13
1991	15.4	22.7	25.9	14.9	9.6	11.5
1992	13.6	24.4	26.1	15.1	9.7	11.1
1993	11.2	25.8	27	15.7	9.5	10.7
1994	9.2	26.7	26.2	15.8	9.7	12.3

Table 3.3: Contribution to Production-based Gross Domestic Product at current prices at percentage share by Major Economic Sectors, 1961 - 1994, selected years

Source: Hong Kong Industry Department, Hong Kong's Manufacturing Industries, 1989 - 1996

Regarding to 1961, quoted from "Table 1.4 GDP by economic activity: HK (percentages)" in *Hong Kong Business Environment*, edited by David Lethbridge, 1980, Oxford University Press, pp.8.

Year	Gross Output (in Hong Kong millions)	Value-added of the clothing industry (in Hong Kong millions)	Value-added per person engaged in clothing industry (in HK '000)	Value-added per person engaged in all manufacturing industry (in HK '000)
1981	34979	10131	31	36
1983	43170	12770	41	47
1984	49453	15230	47	55
1985	46891	14536	47	55
1986	59452	17791	54	67
1987	73910	21491	67	80
1988	73874	21694	74	94
1989	81652	23949	84	108
1990	81954	23922	91	121
1991	85095	23105	102	142
1992	85164	24746	122	165
1993	76764	21246	127	181
1994	70866	18441	134	200

Table3. 4: Gross Output and Value-added of the garment industry from 1983-1994

Source: Hong Kong Industry Department, *Hong Kong's Manufacturing Industries*, 1995 and 1996

<u>Asia</u>	<u>US\$</u>	<u>Index</u>	<u>Latin America</u>	<u>US\$</u>	<u>Index</u>
Taiwan	14.87	110	Costa Rica	8.94	66
Hong Kong	13.55	100	Dominican Rep	8.71	64
India	10.50	77	Guatemala	7.71	57
Malaysia	9.23	68	Mexico (US Border)	7.64	56
Thailand	8.48	63	Mexico (Yucatan)	7.07	52

Table 3. 5: Clothing Production Costs per Standard Hour

Source: KSA Report:1995 *Techno-Economic And Market Research Study on Hong Kong's Textiles and Clothing Industries, Vol.1: Strategy for continued Leadership*, p.30

<u>Year</u>	<u>Total exports</u>	<u>Domestic exports</u>	<u>Re-exports</u>
1989	2262	1538	724
1990	2654	1737	917
1991	3517	2261	1256
1992	4594	3094	1500
1993	5255	3526	1729
1994	6040	4536	1504

(All in Hong Kong millions)

Table 3.6.1: Total exports, domestic exports and re-exports to China for outward processing by articles of apparel and clothing accessories - value from 1989-1994

<u>Year</u>	<u>Total exports (in millions)</u>	<u>Domestic exports to China for outward processing (in millions)</u>	<u>Re-exports to China for outward processing % (in millions)</u>
1989	23102	5234 (84.8%)	17868 (71.5)
1990	27975	5694 (84.2%)	22281 (75.9)
1991	35616	6330 (83.7%)	29285 (77.1)
1992	43658	6622 (87.4%)	37036 (81.9)
1993	44280	6042 (86.8%)	38238 (81.0)
1994	51766	5318 (79.4%)	46447 (78.3)

Bracket refers to the corresponding estimated proportion of outward processing trade

Table 3.6.2: Total exports to China for outward processing by textiles materials, yarn, fabrics and textiles articles other than textiles garments, value and its proportion

Source: CSD, *Hong Kong Monthly Digest of Statistics*, June 1995

Year	Value of domestic exports (in HK\$ millions)	Percentage share of all manufacturing industries in respective year
1950	163	4.4
1960	1010	35.2
1970	4337	35.1
1980	23258	34.1
1984	46714	33.9
1985	44912	34.6
1986	52162	33.9
1987	63321	33.5
1988	67309	30.9
1989	71874	32.1
1990	72165	31.9
1991	75834	32.8
1992	77156	33
1993	71857	32.2
1994	73086	32.9
1995	73801*	n.a.
1996	69447*	n.a.

Table 3.6.3: Value of domestic exports of the garment industry, 1950-1996

Source: Hong Kong Industry Department, *Hong Kong's Manufacturing Industries*, 1995

*Hong Kong Trade Development Council, 1997, *Hong Kong's Major Manufacturing Industries*, 13.

Chapter Four:

Product strategy and the Mode of insertion of domestic garment manufacturers in the buyer-driven commodity chain

Preamble

In this chapter, I would like to describe the changes in the production strategy of local garment manufacturers and the mode of Hong Kong's insertion in the world economy through the buyer-driven commodity chain in the post-war decades. The purpose of this chapter is to demonstrate the ability of domestic manufacturers of capturing the market niche in the competitive environment during the 1990's. As suggested by the resource dependency perspective in the organisation theory, domestic manufacturers, as the social actor for the organization, are not fully self-directed and embedded in the environment with other social actors. In this light, the organization's activities and actions are constrained and influenced by the environment and other social actors. In order to enhance its autonomy and loosen its dependency on other social actors, an organization needs to acquire resources to maintain its ability of survival. In the context of the garment industry, I suggest that the development of the product strategy is very important to the manufacturers. How can they attract overseas buyers to the domestic node in the world economy is essential to their survival. In fact, the fieldwork shows that domestic manufacturers are conscious to diversify their product strategies during the eighties as to strengthen their ability to compete with others in the market. While some interviewed manufacturers are doing the original equipment manufacturing (OEM) for their overseas buyers, some are aggressive to develop their own brand design or manufacturing. I would like to argue that the development of the own brand manufacturing in the commodity chains is a way to maintain their autonomy in the market. The organization of this chapter will be as follows: first, a general background of the thirteen garment

factories will be presented. The second part is an attempt to describe the experiences of garment manufacturers. Under industrial restructuring in the nineties and how they can obtain their orders in a competitive environment. We shall also look at their interaction with the buyers. Three types of production strategy in the OEM production will be identified in this section. The last part of this chapter examines the competitive edge of the industry in terms of "quick response", "flexibility" and "maintaining relationship" with customers. I hope that a sociological account of the above experiences of garment manufacturers in the nineties will help to shed light on the conditions of the industry and the changing production strategy in the context of restructuring.

4.1. General profile of the thirteen factories

Thirteen garment factories have been interviewed through the snow-ball sampling method from early July 1996 to early April 1997. Either the owner or management of the garment factories had granted me the opportunity to interview them. Different types of factory have been approached, ranging from the multinational group to a small-scale subcontracting factory. The sizes of the garment firms are defined according to the establishment size before relocation. Because there is a general trend of downsizing in the Hong Kong's factories after industrial relocation, the contraction in local production plant does not necessarily mean a reduction in their overall scale of production. Therefore, the establishment size before relocation is utilized to classify the size of the interviewed garment firms. Those firms with a workforce less than twenty people are classified as small-scale, while those under fifty are defined as small-medium, under five hundred is defined as medium-size, between five hundred to a thousand is medium-large size and over a thousand is classified as large-scale firm. Among these garment firms, one factory is small-scale, six are small-medium and the others are medium-large scale. Some have diversified their economic activities from production to retailing (Case G, H, L and M),

while others concentrate on manufacturing. It is not my intention to argue that data generated from these thirteen factories are sufficient to give a generalized picture. However, the factories being interviewed do cast light on the picture of stratified industrial structure in Hong Kong. In fact, I would like to use the experiences of these garment manufacturers to illustrate a more dynamic picture of the restructuring experience in Hong Kong.

The factories I have interviewed are owned by local capitals, except one that belongs to a multinational group. They have different organizational histories. Three factories were set up in late fifties to sixties, five factories in the mid seventies, another five factories in the early eighties, and only one was set up in the nineties. Among them, nine factories have relocated the production line to China since the late seventies to early nineties. Two have overseas production in other South East Asian countries. Details of the factories are summarized in the table.

Table 4. 1: General profile of the factories

Cases	year of set -up	nature of capital	entrepreneur' nationality	establishment (before relocation)	relocatio (Year)	Economic activities
A	1987	local, private	Chinese	20	no	assembling
B	1985	local, private	Chinese	15	yes 1997	production,OBM
C	1987	local, private	Chinese	50	yes 1989	production
D	1986	local, public	Chinese	50	yes 1992	production
E	1975	local, private	Chinese	300	yes 1987	production
F	1978	local, private	Chinese	300	yes 1989	production,
G	1957	local, private	Chinese	350	yes 1981	production, trading
H	1968	local, private	Chinese	300	no	production, trading
I	1996	local, private	Chinese	20	no	production, trading
J	1986	local, private	Chinese	20	no	production
K	1978	local, private	Chinese	25	yes, but f 1992	production
L	1975	local, public	Chinese	more than 300	yes 1978	retailing,OBM production,
M	1968	local, publi subsidiary	Chinese	350	yes 1979	production, trading

4.2. Product strategy of the local garment manufacturers in doing OEM and OBM

All the manufacturers I have interviewed complain that it is becoming more and more difficult to get orders in the market, facing keen competition from other low-cost countries. In the early 1950's - 1970's, Hong Kong's garment manufacturers supplied low-end, simple style garment products for the industrial countries like the United States and the European countries. With the emergence of low-cost countries in East Asia, Eastern Europe or Latin America, Hong Kong is no longer competitive in getting low-end orders. Manufacturers tried to secure medium-end to high-end orders in the eighties. Some firms manage to go beyond OEM by doing the original design or original brand manufacturing(OBM or ODM). Those firms succeed in doing OBM production usually have integrated into retail service and by doing so they do not have to rely on overseas buyers to get their orders. In the following, I would like to describe manufacturers' experiences in shifting their product line in the past ten years and their utilization of quick response to capture the market niches in the changing world economy.

How the garment manufacturers capture the market niche in the GCCs through the OEM production

4.2.1. Shift the product line to medium or high-end orders

It is observed that there are different forms of reorganizing production strategy for the purpose of capturing market niches. Local garment manufacturers were very conscious about the necessity of shifting their product line during the early eighties.

In the case of Factory F, the director is well aware of the need of changing the product line to high-end products. Before such re-organization, Factory F produces jeanswear and jeans for overseas buyers for more than ten years. The orders are in mass volume but low-end. The director notes that,

"There is not much change in the style of jeanswear. So is the price. The buyers know that the cost of this kind of garment. You can't increase their price. Then how can you do it?"

As a veteran manufacturer in the industry for over twenty years, the director is very sensitive about new development in this industry.

"I don't think getting orders is a great problem for me. If my product is of good quality, then we can still get the orders. I won't get the low-end orders. There are different prices. We can't compete with other low-cost countries. I think that there is an evolution process in the world economy. We do the cheapest product in the old days, and then the medium and high-end

product. The buyers come to Hong Kong and they know what they are looking for. If they want to find some low-end goods, they would go to Sri Lanka, Indonesia or India.”

The director changed the product line from jeanswear to high fashions during the eighties. In case of Factory F, they have two floors of working space with a workforce of over three hundred workers during late seventies. When the director decided to change their product line to high-fashion, he realized that that involved change in the quality control concept and the mentality of the workers.

“In our industry we must overcome our mental block. I mean, sometimes we are rigid in this industry. We think that once you are specialized in certain product line and then that is. Your production line concentrates on jean and then you can’t do the shirts. It seems that it’s difficult to change the product line. Previously you produce this kind of product and I do my mine. The product is so specialized. This is the same for the workers. Workers were not confident about mastering the skills in changing the product line. They think that they can’t do it and resist the changes. They think that they can only make jeans and can’t make blazers or coats. They don’t accept the new arrangements when we change the product line at the initial stage.” (The director of factory F)

In fact, the director does not change the product line immediately. He divides the product lines into two: one is jeanswear and the other is the high-fashion wears. The managing director explains that this enables the workers adapt to changes gradually. On the other hand, workmanship requires a better quality control system for high-fashion product. For instance, before proceeding to the next stage of production, each step is closely monitored to ensure the quality.

Similar experience is found in Factory E, which was set up in 1975. At present, the product line concentrates on the medium-end ladies’ executive garments, like blouses, skirts, shirts and trousers for the brand-named department stores in the US market. The sales price is around two to three hundred US dollars for the garment. In the seventies, Factory E produced ladies’, children’s knitwear, and jeanswear with simple style and low-end price. The owner realizes that they lose their competitiveness in the world market and therefore they diversify the product line to evening wear for the UK market.

Later they change the product line to medium-end ladies' garment for the US market and give up the product line of knitwear.

As mentioned above, the shift of product line to medium-end or high-end orders required a change in the quality control procedure. To maintain product quality, some factories have applied the ISO9002 to ensure quality assurance. (the factory L) To get the certificate of the ISO9002, factory has to keep close inspection of different production procedures.

4.2. 2. Specialization on specific market target

The second strategy of capturing the market niche is by specialization of their product line on specific target. The following experiences of several factories could help us to understand this issue.

The owner of Factory I started garment production in 1996, a latecomer in the industry. Having over ten years of experience in the industry, he specializes in doing children's wear and baby's wear for the European market in which not many suppliers do the same product line. His major buyers are mainly from Germany, whom he has been working with for over ten years before starting his factory.

"Buyers are willing to offer an attractive price for the baby's wear and children's wear. A child's sweatshirt can be sold at some fifty Deutchmark in the market. The consumers are willing to pay for their children and the demand is quite stable. I don't worry about getting the orders in the market." (The owner of Factory I).

While most manufacturers I have interviewed adopt OEM as their major product strategy, there are some exceptions. Another strategy is to do the original design manufacturing for the overseas buyers. (ODM) The owner of Factory B has been doing OBM before starting the production line in Hong Kong in the early eighties. As a fashion designer, she concentrates her product line on medium and high-end ladies' fashion in local and the European market. The order is very small which ranges from thirty pieces to several

hundred pieces. She describes her production is near "half-tailoring". Her own design and the "half-tailoring" skills enable her to attract the East Asian buyers in the market.

Apart from doing small-quantity, medium and high-end ladies fashions, the owner has always keep up her "sense of fashions" and knowledge on fabrics in the European market. She visits Italy or Paris twice a year, look for updated and fashionable fabrics and to have direct access to the market.

"This makes me sensitized of the needs of the buyers and their taste." (The owner of Factory B).

4.2.3. Diversification of product lines with different price ranges

The third product strategy is to diversify the product lines with different price ranges. It is quite a common practice for garment manufacturers in the nineties. Low-end, mass volume orders are placed to the offshore or China's production plants while the Hong Kong's production lines deal with high-end orders. By doing so, the manufacturers can handle different types of buyers.

The manager of Factory D tries to get the orders with more complicated styles like embroidery sewing on the garment. Specialized subcontracting to do the embroidery procedure is required in the organization of production. Such orders are usually medium-end range. Meanwhile, they also receive the low-end orders in the market and send them to the production line in China. The manager suggests that although the low-end orders are not so profitable, they are important to support the production line in China because they keep a fixed cost in running a plant in China. So, orders from the low-end, simple-style, medium quantity and low quality requirement will be placed to China's production line by offering the "made-in-China" option to the overseas buyers. In this case, the manufacturer can still manage to get the low-end orders and compete with other low-cost countries.

In the case of Factory G, their product lines are targeted at different markets in different prices so as to enhance their flexibility in getting the orders. Factory G is a veteran garment manufacturing group in Hong Kong with a history of over thirty years. Concentrating on making shirts and blouses in the past decades, it has enjoyed a high prestige and credibility to get orders from overseas markets. Their styles are become more fashionable and complicated in the nineties. Order size remains several hundred to several thousands pieces. The group targets at those buyers' with price ranging, from low-end to high-end product, including Christian Dior, Cecilene, Banana Republic, Country Road, etc. Therefore, the group can enjoy a high degree of flexibility in getting the orders. Besides, this can help them to maintain the relationship with the various types of buyers in the market.

Other factories have similar experiences. Factory C, J and K are small-scale factories, which have been set up between the seventies and the early eighties. There is no change in the product line after starting the business. They mainly produce ladies and men's knitwear. Factory J and Factory K have worked with the subcontracting garment factories in China through the outward processing arrangement while Factory K has a production line in China. The existence of the production network in South China enables them to compete with other low-cost countries for the low-end orders. (This part will be discussed in greater details in Chapter Six)

I have interviewed a subcontractor (Factory A) which concentrates on getting orders from other garment factories. In the case of Factory A, meeting rush orders with quality assurance is its competitive edge. The order size is relatively small, ranging from fifty bundles to a hundred bundles.

"In many cases the parent factory asks me to finish the orders within ten days. It is quite common that some factories do not prepare well at the pre-production stage and this affects the production schedule. For instance, sometimes buyers are late to confirm the required size and color assortment

of the garment. It takes time to make the necessary arrangements for material sourcing before the production. So, it leaves little time for production."

So, under such circumstances, the production lines in South China cannot totally replace the local factories when the subcontracting factories in Hong Kong can enjoy high degree of flexibility in the production. The owner suggests that orders received have been growing in numbers..

From the above observations, three types of product strategies through the OEM are identified in the fieldwork. The following table shows the typology of product strategy among the thirteen garment firms I have interviewed.

Table 4. 2: Typology of product strategy of the garment manufacturers in the 1990's

1. Shift the product line to high-end fashions

Cases	Workforce	Product line	Characteristics	Market
E	350	from children's knitwear to ladies' executive garment	medium-end	private-labels in the US department stores
F	300	men's and ladies' fashions	medium to high-end	Brand-named company like Arnami, C.K. Espirit
H	300	ladies' and men's ladies	medium-end	brand-named companies

2. Specialization in product line

Cases	workforce	product line	Characteristics	Market
I	20	children's and baby's wear	medium and low-end	Germany, specialty stores
B	20	Ladies' fashions garment own brand manufacturing (50%) as well as OEM (50%)	medium end, small quantity	Europe (Sweden, Spain England), East Asian market like Singapore and local

3. Diversification in product line with different price range

Cases	workforce	product line	Characteristics	Market
G	300	Shirts, blouses	low-end to high-end bulk buyer	Japan, US, Europe, Australia, brand-name companies
C	50	Jeanswear, knitwear	low-end to medium-end, medium volume	US and East Asian
L	More than 300	Jeanswear, ladies and casual wear	low-end to medium-end, volume	JC Penny, GAP, Van
J	20	Ladies' and men's knitwear	low-end to medium-end, small volume	no specific market
K	25	Ladies and men's knitwear	low-end to medium-end, small volume	European market and East Asian market
M	300	Men's woven and wool shirts	low-end to high-end orders, different volume	US and the European market
D	50	ladies and men's knitwear	medium-end	US and European, East Asian

The above shows that garment manufacturers manage to get orders in the market through the OEM production strategy. Besides, there are two factories doing the OBM. Here, I would like to explore their experiences of doing OBM and how this enhances the competitive edge of the factories.

4.3. Experiences of doing OBM

OBM differs from OEM in the sense that manufacturers do not only serve the buyers in accordance with the design of the products from the buyers, but also the manufacturers have developed their own design or own brands in the market. Usually, there is an integration of production, marketing, and retailing activities in the commodity chain when the manufacturer is prepared to do the OBM production. What are the experiences of the garment firms which are successful in doing the OBM? Why they can manage to do so? In what way that the experiences of doing OBM helps to enhance the competitive edge of the manufacturers? These are the questions that I would try to deal with in this section.

First, before we look at the experiences of doing OBM in the market, I would like to argue that the embedded context as well as the organizational strength of the garment factories are quite important to do OBM. Factory B and Factory L are the two factories with its own brands selling in the market. I would like to argue that the background of the entrepreneur in case of Factory B matters in explaining the successful experiences of doing OBM.

Factory B was set up in 1985. Before starting the business, the owner is a fashion designer, graduated from the Design Department of the Hong Kong Polytechnic University in the late seventies. At first, she worked as a design assistant for the fashions firm and got the practical experiences there. Then she became a merchandiser in the buying offices for a few years. This enables her to build up the networks to obtain the orders. Having

few years' experience as a fashion design assistant and merchandiser, she joined with a partner to design ladies' fashion wear for local market. They gave the design sketch to the local factories and then distributed to local boutiques for sales. Later, she broke with her partner and continued her own business. She realized that it is difficult to maintain satisfactory quality control over the local subcontractors. She started garment production by herself when her friend told her that they needed somebody else to takeover a small-scale factory in Cheung Sha Wan. Then she decided to take over the production plant and started her business.

The establishment size is relatively small, only thirteen workers are employed at the production site. As mentioned above, having years of training and working experiences as a fashion designer, this enables her to develop own brand easier. At the initial stage of development, her own design was registered with a brand-name called "Marry". There were different collections under this brand-name, mainly on ladies' fashion wear. The major buyers were local boutiques and the East Asian buyers like Singapore, Malaysia. It was not until the early nineties that she is able to explore the European market.

Recalling the experiences of doing own brand-name and how to build up the image for her own brand, the owner said,

"I have to approach the buyers by myself, give them samples for inspection before confirming the orders. That's different now. I buy the fabrics, make the sample and then give it to the local boutique before we started the production. The customers come to visit our sample room to confirm their orders."

Usually, the buyers from the local market or the East Asian countries like Singapore, Thailand accept the original design and use her brand-name. Because the fashion trend in the East Asian market is a bit slower than the US or the European market, then it is likely they accept her locally-designed garment. But the European buyers are different. Although they depend on the design service from the owner, they still use their own brand-name. The owner perceives that she can still maintain her competitive edge when the overseas

buyers need her design service. She also recognizes having the retailing chain-store is a faster way to establish the image of the brand-name.

"Having retail chain stores is a faster way to build up the image of your own brand- name, like the Giorando or G2000. But then I need enormous amount investment to do that."

However, it is not financially viable for the owner to set up her own retail chains to promote the image of her own brand-name.

The above experience shows that the background of the entrepreneur is quite important for the garment firms to develop their own brand. Similarly, other cases like the Brand name like "Sandy Liu" is also successfully developed by an international garment group during the mid eighties. The firm was started as an apparel trading company dealing with Italian buyers before it integrated garment manufacturing as its major business. It was not until 1986 the trading firm changed to a garment production firm, producing silk fashion wear for Italian buyers. The production managing director Miss Sandy Liu is responsible for the production. Graduated from the Hwa Dong Textiles University in China, she has expertise knowledge on silk garment production. Then, the company uses her name as the brand-name for silk production. The collection ranges from men's and women's wear, underwear. At present, her clothing have been sold in more than two hundred boutiques in France, Spain and Italy. (Textiles and Clothing:1991:Vol3:70-72)

Factory L is very prominent in moving up the global commodity chain through the OBM in the nineties. The owner started as a small factory doing subcontracting orders from other garment factories at the initial stage of development in the early seventies. The product line concentrated on jeanswear and denim jeans. The owner expanded the manufacturing base to other third world countries between the late seventies and the early nineties. The offshore production bases served as a subcontracting network for the group in its development. In the nineties, when one of his major buyers in the Australia encountered financial difficulties, the group grasped the opportunities to acquire a minority

shareholding interest in the buyer's company. It is a casual wear retail chain network, with a brand-name called Jeanseast.¹ In 1994, the Group fully controlled the management after they secured the acquisition of shareholding interest. Then the group continued to use since Jeanseast as their own brand-name and developed vertical chain stores in Australia and Northern part of China since 1994.

The integration of brand-name retail chain helps to support the group to do the OBM. After getting the existing brand-name from the Australian chain stores, the Group develops a group of over twenty designers serving the brand-name. Members of the design team attend trade fairs and fashion shows held in the US, Europe and Australia to assess the latest fashion trends. Then product samples will be prepared and orders for the forthcoming season. Besides, the Group also invests in the value-added activities of marketing, promotion of their brand-name through massive advertising and overseas promotion activities. The managing director of the Group suggests that it is necessary to make investment in all these activities. At present, they have 301 retail chain stores under the control of the Group. Over seventy percent of the apparel retailed by the Group are supplied by the manufacturing operations of the Group and its associated companies respectively. Other subcontractors supply the remaining 24 per. To get sufficient financial requirements for the rapid expansion of retail chains in China, the Group becomes a public-listed company. The capital being raised in the stock market is four hundred millions, which provides an enormous financial back-up for the expansion of retail chains in China's market. (The experiences of doing OBM and their significance in the sharing the retail market will be discussed in the next chapter.) In the experience of the Case L, the group itself has taken over the factories of the buyers and has moved towards directly selling its products.

¹ The brand-name for factory L is a faked name.

4.4. How buyers are attracted to the domestic node

4.4.1. Make a perfect match in the market

In the daily operation, the buying office or the trading company's merchandising department has an evaluation profile of the suppliers, which outlines the financial situation, quality of workmanship, turnover volume, terms of payments and past records of the garment manufacturers. Since there are so many garment manufacturers and anonymous buyers in the market, how do both parties make a perfect match in the market? Neo-classical economists claim that "price" is the governing principle that binds the two parties together. Economic actors have perfect information about market signals and they can act rationally. However, it is observed that personal networks matter in the matching process. As Granovetter has clearly stated in his seminal article "Embeddedness and Social Structure", the action of any social actors is historically and socially embedded in on-going personal relations. (Granovetter: 1985) The "embeddedness" perspective is useful to help us to understand how economic actions are embedded in social relations. Now let us turn to examine the experiences of different garment firms in getting the orders through a personal network.

First, few manufacturers depend on the formal channel to promote the image of the factories like the trade fair from the Trade Development Council.

"You have to pay several hundred thousands dollars for renting an exhibition stall just for a few days. But it's not so useful. The area is too small and we can't show our samples to the customers. It's not so effective to get the orders there, except for exchange of the name-cards. I prefer to advertise on the trade magazine or depend on the referral from my friends." (Mr. Tang, the owner of Factory I)

In the case of Factory I, the owner started the business in early 1996. The pre-established ties from his ex-employment is important to help him to get orders in the market. Having working in a garment factory for over ten years, he was responsible for the production as well as other trading-related activities. When his ex-employer decided

to emigrate to another country in 1995, Mr. Tang took over his employer's business. Having over ten years' production and merchandising experiences in the industry, he can manage to secure his orders from previous buyers he knows of. This ensures him of stable order at the initial stage of development. At present, Mr. Tang works with three frequent buyers that occupy some seventy percent of the production capacity of the whole production line.

The experiences from other factories are very similar. The order source either comes from their friends in factories, agents or designers in the industry. The managing director of Factory F suggests that getting orders in the market depends a lot of "referral" from friends and designers from other brand-named companies.

"It is meaningless when you boast how good is your product quality. The referral from the designer is more effective. They've their own circle and meet constantly to discuss which garment suppliers have good workmanship. Sometimes the old generation told the young generation which garment supplier is credible. The designer from Armani used to work for Calvin Klein. Because we worked together previously, it is a better way to get the orders." (Mr. Cheung of Factory F)

By the same token, when the new buyers approach the owner, it does not automatically lead to a successful deal for both parties. My informant suggests that they must examine the background of the new buyers before deciding to supply goods for him.

"When somebody phones to me and wants to do business with me, the first question I must ask is "How do you know my factory?" "Who introduces my factory to you?" and the financial background of the buyers. You know, we also have to take the risks because we pay for the production cost before we can get their payments."

In the case of Factory I, the owner has similar response,

"If the new buyers are recommended by my friends, then I'll do his orders. Otherwise I may reject him."

At the initial stage of starting up the business, the owner of Factory I gets the orders in a cautious manner. As mentioned, when he can secure orders from his network, he does not want to bear the risks of contacting other new buyers, especially if he is not sure about the background of the new buyers.

"In this world, some buyers are cunning. They just want to make quick money and cheat us. I know a friend who receives order from an overseas buyer with massive orders. Everything is OK at first. The buyer pay for the goods for the first and second time. Then this buyer rejects the goods before delivery because he was dissatisfied with the workmanship during the third time. He insists on rejecting the goods and makes claim towards my friend. Finally, another third party comes to purchase the goods at a very lower price. Later my friend knows that the buyer and the third party work together to press down the prices."

To avoid the loss from this kind of "cunning buyer", the owner recognizes that it will be more secure to get orders from the friends, rather than through an anonymous buyer in the market.

In the industry, the manufacturers have their own network, meet together and share information about which buyer is demanding, troublesome, or which buyer is good partner. While it is not my intention to go deep into details about how this network is formed among the manufacturers, it is interesting to note that the information pool of this network serves as one of the order sources for the garment factories. The experiences of Factory A and Factory D can illustrate this point.

Factory D is a subsidiary company of a Multi-national Group which was set up in the mid eighties. Although it is a subsidiary for a multinational group, the business operation is quite independent. The manager says that he has to get orders by his own means, without the assistance from the Group.

"The Group has only very limited assistance to us in getting the orders. We only enjoy some advantages because the group is financially viable and the buyers are confident to give us the orders. But I have to rely on my own network in the trading company or other factories to get the orders. For instance, you interviewed me today and you know some of the garment factories, perhaps one day I need your help to refer some factories that you know in getting the orders. For instance, you interview me today and you know some of the garment factories. Perhaps one day I need your help to refer some factories that you know in getting orders." (The manager of Factory D)

In case of the subcontracting factory, the horizontal network among different factories in the industry is important to maintain the survival of the small-scale factories in Hong Kong. Factory A is the only subcontractor I have interviewed. The owner neither gets the orders from the trading companies nor from the buying office in the territory.

However, he manages to survive solely by depending on the orders from other parent factories in the past ten years. The parent factories offer the orders to Factory A during peak season. Some manufacturers would discuss with him about the expected order size in the coming year while some do not. Therefore, the tie between the factories and Factory A is very weak in this manner. It is worthwhile to examine how this network is established by the owner.

"I can know new friends in doing the Cut-Trim Manufacturing (CTM) for other factories. It's like a spider's net. Now this factory can't give me the orders, but then he knows some of the friends from other factory and he introduces his friends to me. His friend then gives me the order and become my network. Again, when his friend can't offer me the orders, then I would ask them to refer their factories to me. Such ongoing relationship enables me to know more friends." (Mr. Lam of Factory A).

Apart from getting orders through the established social relations, it is observed that it is likely that large-scale factories are willing to invest a lot in promotion and marketing activities in order to build up their image for the overseas buyers. The experiences of Factory G and L are as follows:

The L Group's manager says that they do not have much difficulties in getting orders from new markets because of their established image in the industry. "Word of mouth" from the existing buyers is a way to find new buyers. This is because new buyers are confident about the quality of the product assurance when other famous brand-named companies and department stores purchase goods from the group. Although they enjoy such reputation, the group still spends an enormous amount in marketing.

The group constantly participates in trade fairs organized by the Trade Development Council every year. The manager realizes that it is a way to show themselves before the new buyers. Besides, the group holds overseas exhibition in the United States, Japan and Europe and contacts new buyers directly.

"Even we don't get the orders in the trade fair, it doesn't matter. We can give an impression to the buyers. We go to the US and lock the door of the buyer. It's difficult for you to get business there. But then you can give him the impression that you tune in the market and

have the sense. You don't just stay in Hong Kong. Then after you lock the door in the US, then you contact the agent in Hong Kong. Because we've talked to the buyers before, left our namecard to him. The buyer will have some ideas about our image. When the agent tries to find their supplier, at least we've some advantages over other factories." (The manager of Factory G)

4.4.2. How to maintain relationship with the buyers

Hong Kong's garment industry is famous for its good service to overseas buyers in such a way that many overseas buyers would like to see Hong Kong as a sourcing center (MIT Report:1997:147). All the informants suggest that quick response, flexibility, good service and keeping good relationship with their customers is a "Must" to compete with others. But how are these elements socially organized in their everyday practice? I would try to bring out the contents of "flexibility" and "quick response", which are anchored in the everyday practice of the manufacturers.

First, I would like to examine the notion of "quick response". Today, overseas buyers are very careful to confirm the orders at the latest moment. Unless they are very certain about the market trend and what kind of garment sells well in the market, they would not make the decision. It is observed that many manufacturers encounter great pressure to compress their production cycles and the lead time is very short. After the buyer confirms the orders, they have to deliver the goods within forty days, including the sourcing of all the necessary materials. Then, the manufacturer has to ensure a smooth coordination of material sourcing, production and delivery in order to meet the deadline of the buyers. Quick response to the requirements of buyers and being on time are important for keeping relationship with the buyers. Perhaps the experience of Factory F can illustrate this point. When the buyer has a design sketch on a specific garment, he will fax the draft to the factory and asked for the quotation price. After receiving the draft, the manufacturer checks all the necessary production cost of materials, accessories and give the quotation price to the buyer within a day.

"The buyer gives me the draft in the morning and then I give the quotation price to him in the afternoon. This is my objective, I don't want to have any delay. I make the point that you give me the draft and I told you in the afternoon, after getting all the fabrics' information from South Korea or other East Asian countries. This is our competitive edge. Many overseas buyers have trouble in finding suppliers in China, even the price is very low. But they (the Mainland factories) do not guarantee you about the schedule. That's why we still maintain our competitive edge in getting the orders." (The managing director of Factory F)

Besides, quick response also means the manufacturer has to be very sensitive to the marketing trend of the garment products and master the marketing information. Knowledge of the market trend, about which kind of fabrics is popular, and where he can do the sourcing for necessary materials within a short period are important.

"Buyers give me the fabrics sample from Florence. Then I have to do the sourcing and find the same quality of fabrics at a lower price, maybe in South Korea or Taiwan. This is the rule of thumb. If you're not familiar and quick response, how can we compete with other countries?"

In the case of Factory M, their product line is the woven and wool garment. Before they get the orders from the buyers, the owner will discuss with the producer of the spinning factory in advance to prepare different kind of yarns for the prospective orders.

"We arrange different color combination of spin yarn. I have an estimate of the buyers' needs. Of course, sometimes it is out of our expectation when the color combination is not the same as the requirements of the buyers. It seems that some of our effort is wasted because of the idle fabrics. But it's not a waste as such. I can save the time and start the production immediately with the support of the spinning factory." (The managing director of Factory M)

The support from the sourcing suppliers is important to enhance the production planning capabilities and the ability of quick response for the garment manufacturers in the market.

Besides, giving the sample to the overseas buyers within a very short time is crucial in the garment industry. Before the confirmation of order, buyers would ask the factories to make the sample for them before determining which supplier can grasp the orders. In some cases, even though management has relocated its sample room to South China, they can still finish the sample within a few hours and give it to the buyers. The experience of Factory F, doing fashion-oriented jackets like Armani, Calvin Klein, Esprit, is illustrative.

"They give us the draft, I tell my craftsman to make the sample-draft. Then I fax to Shenzhen's plant to ask the worker to do the sample. I go to the Shenzhen's plant in the

afternoon and get back the sample in the evening. That's convenient and I'm happy to meet the buyer's requirement."

Good service and flexibility of the manufacturers in Hong Kong also enable them to get orders in a competitive environment. Almost all the informants take full responsibility of quality control. When contingencies arise, local manufacturers are willing to share the burdens and risks with the overseas buyers.

The managing director of Factory L, as a multinational group for over twenty years, explains why they can keep stable relationship with the upper-end brand-named companies for years,

"Sometimes there is communication problem between the sales department and their buying office about the stock delivery. Then their department store is out of stock. We're informed of an earlier delivery date. We deliver the goods by flight and share the additional flight cost."

However, manufacturers also realize that the buyers take advantage over them on this point when the manufacturers take full responsibility for the orders. Whatever products are not well sold in the market, the buyers shift the burden to the manufacturers by claiming discounts on them.

Apart from quick response, when the quotation price exceeds the buyers' budget, manufacturers are willing to help the buyers to find alternative method to overcome this problem. Like the case of Factory E, they have established long-term relationship with their frequent buyers. In the usual practice, every buyer has their own budget to purchase goods for department stores every year. They purchase the goods from the manufacturer within this budget. However, when the production cost exceeds the buyer's budget, the manufacturer is trying the best to find the solution for the buyer.

"We come across a situation that the buyer finds a good quality fabrics, but the cost for this kind of fabrics is quite expensive and exceed the budget. We try to find the alternative to help the customers. Sometimes we even make a loss in the transaction. We're willing to do so. Because this buyer always support us by giving the orders to our factory." (Miss Cheng, the general manager of Factory E)

The manager is willing to give up their profit in the short term in exchange for a long-term relationship with the buyer. To a certain extent, she expects that there is a reciprocity relationship between both parties. This form of relationship is not purely an exchange or both parties are trying to act in an opportunistic manner. In fact, both parties are expected to have long-term relationship that makes the cooperation possible.

I would like to contend that there exists a power relationship between the buyer and the manufacturer. However, the emergence of the power relationship between the buyers and the manufacturers is in a latent form, and that depends on the importance of the buyers to the manufacturers. If the buyer is the main order source for the manufacturer (in other words, the more the resource dependent on any particular buyer) it is more likely that there emerges an imbalanced power relationship between the two parties. Perhaps the following episode given by a medium-size factory owner can illustrate the above argument.

"The overseas buyers give the orders to the manufacturers in other Asian country because of their lower price. Sometimes the Asian manufacturers don't finish orders because they get another with higher quotation price. Since the quotation price for this particular order is for the Asian supplier, it must be very low. The buyer ask us to finish the orders for them within a rush period. Of course, because we want to keep our prestige, we're willing to do so." (Mr Yiu, owner of the Factory C)

He suggests that such demand from the frequent buyer is unreasonable and unfair to them. But he also realizes that since the frequent buyer is their major order source, they have to keep good relationship with them in exchange for long-term order stability. In case of the contingencies or conflicts with the buyers, local manufacturers are likely to compromise with the buyers.

4.5. Concluding Remarks

To summarize the experiences of the garment firms, it is noted that they capture the market niche through three types of product strategies. While some firms shift the product line from low-end to high-end, some have diversified the product lines in different price ranges to target at different types of buyers through the OEM

production. Besides, some garment manufacturers manage to do the OBM or ODM to move up to the commodity chain. The more aggressive manufacturers, with more organizational resources, try to develop their own brands to capture the market niche. This chapter also brings out how an order is matched in the market through the utilization of ongoing social relations of the owners and management in the industry. Besides, it is also found that manufacturers' flexibility and quick response to the customers' needs as well as keeping good relationship with the customers are important to ensure them to compete for orders. Their experiences demonstrate that domestic manufacturers are conscious to respond to the external demands and restructure the product strategy to maintain their competitiveness in the market. Then, the next question is, after product strategy is being identified by the garment manufacturers, how they do connect themselves with the overseas buyers through the local trading network, or with the direct linkage with the overseas buyers? Besides, there emerge different types of interfirm linkage with the buyers. This will be dealt in the next chapter.

Chapter Five:

Interfirm Linkages in the Buyer-Driven Commodity Chain

Introduction

This chapter examines the nature of the interfirm linkages between domestic manufacturers and buyers in the buyer-driven commodity chain. As stated in the previous chapter, Gereffi has argued that in the buyer-driven commodity chain, there is a governance structure that in which buyers are influential in shaping the organization of production network. In this process, there is an authority and power relationship behind this buyer-driven governance structure that determines the flow of financial, human and material resources in the commodity chain. However, Gereffi has not given a clear and substantial account on the content of this governance structure. In what way is the power and authority relationship constituted in the nodes (network) in the commodity chain? I would suggest that we need a more substantial examination of the nature of the "nodes" in the commodity chain for unravelling the nature of the buyer-driven governance structure. Relating this discussion to the study of industrial restructuring in Hong Kong, the economic actors that are active in the commodity chain of garment making are local manufacturers, traders and the overseas buyers. Their interaction in the "product world" implies that there are different types of interfirm linkages to connect the parties together in the GCCs. My field observations show that there are many types of interfirm linkages in the commodity chain, an issue neglected in the GCCs literature.

The resource dependency theory discussed in Chapter Two states that it is more likely the influencer who possesses more resources can exert control over the organization when the resources are critical and important to the organization. This

leads to a power and dependence relationship between the influencer and the dependent organization. However, the dependent organization also tries to enhance its autonomy by altering the conditions that facilitate them to acquire more resources. In the context of the garment industry, I would suggest that the critical resources of overseas buyers include their knowledge on the product and marketing information and the power of allocating the orders to different suppliers in the market. They are important to influence the survival of domestic manufacturers. However, I would contend the resources possessed by the overseas buyers lead to the power and control relationship between the organizations under some conditions.(I would elaborate this point at Section 5.3) We need to examine the interactions between the parties as to unravel the conditions that create a power and authority relationship.

Therefore, I would firstly examine: when the manufacturers are incorporated in the world economy, what functions do the local trading network perform in the GCCs? Under what conditions do the manufacturers bypass the traders and have direct linkage with the buyers? The remaining part will examine the diversity of interfirm linkages between overseas buyers and local manufacturers in the commodity chains. There emerges two types of ties with the buyers which are anchored in the interaction between the two parties in the buyer-driven commodity chain. I will bring out the nature and characteristics of these ties. How do local manufacturers interact with the buyers in the product world? What kind of resources do both parties possess? What kind of bargaining power do local manufacturers enjoy in dealing with the buyers? How do domestic manufacturers strengthen its autonomy as to loosen their dependencies on their buyers? These are the questions that will be answered in this chapter.

5.1. Local trading network as mediator in the GCCs

Big buyers are embedded in the export and distribution networks in which they establish with overseas suppliers and trading companies in the global commodity chain. In the early days, few US retailers set up direct buying offices in Asia. Only a few big buyers, like Sear Roebuck, Montgomery Ward and Macy's, set up their buying offices in Hong Kong in the early 1960's (Gereffi:1994:119). Most garment manufacturers did not directly contact overseas buyers because of the language barrier. They need to rely on the trading houses or agents. In the early days, the local trading network consists of the Indians trading firms, British firms and local Chinese. The Indians established sales network to open up the Middle East and South Eastern markets and acted as a linkage for the manufacturing business while the British trading companies worked for the UK market (Hong Kong Fashion History:1992:110).

On the other hand, because foreign buyers were not familiar with the Hong Kong's manufacturers, they also had to rely on the buying office or trading houses' knowledge of local producers. In my fieldwork, a veteran garment factory reported great difficulties in establishing direct link with the US big buyers during the sixties.

"In the sixties HK was very new for US buyers who sourced goods mainly from Italy. The A.H. Macy's was a famous US department store and I wanted to do business with them. The buyer visited our factory several times, accompanied by their representative in their Hong Kong office. But he never gave us orders. I was so eager to do business with them. I asked him whether he could give us orders. It's worthwhile to make a little loss for the time being. They just gave two types of woven wear with three colours, for only ten dozens and a hundred pieces per style. The buyer said that they didn't have the budget. Anyway, it's a good start for me then. Their response was positive. I delivered the goods on schedule. After a week I was told that the goods were sold out. They accept our workmanship and realize that clothes made in Hong Kong are of good quality. Then our relationship starts." (Mr. Hong, the managing director of Factory M recalled his experience of starting direct link with the overseas buyers during the sixties.)

My field observations show that some manufacturers (Factories A, B, E, G, and I) do not depend on trading company.

5.1.1. Coordination function in order matching and production stage

To ensure an order match between the buyer and the manufacturer, the trading companies usually have their own vendors' list to decide the order allocation. This list includes the past records of the manufacturers, the workmanship, the financial situation, etc. The manufacturer is required to give a quotation price to the traders. Since buyers do not know who is the best supplier, they need to rely on the network and knowledge of the trading companies. The trading companies are responsible to ensure an order match between the local manufacturers and overseas buyers.

On the other hand, the trading company has to help the buyers to work with the manufacturers in the pre-production stage. For instance, when buyers give a sketch to the trading company, then the trader finds appropriate manufacturers to make the sample. Once the order is confirmed, the manufacturer starts to source the fabrics and accessories. The trader has to help the manufacturers to do the sourcing.

5.1.2. Financial function of the trading house to the factories

The financial function of trading houses is another important service to the factories with limited organizational resources or working capital, especially among the small-scale firms. For instance, local manufacturers always need to acquire quotas for exports. In the industry, the quota allocation depends on the manufacturers' past export performance. Therefore, manufacturers who are the pioneers in the industry usually accumulate a large amount of quota ownership. Quota becomes an asset when they can be sold in the market. When any specific category of the quotas are in short supply, local manufacturers without this category have to obtain it either through the local trading houses or sourcing agents. (Chu:1988:215-6) Because of price fluctuations, sometimes it is difficult for the small-scale factories with limited financial resources to purchase the quotas. In this process, trading houses or sourcing

agents holding quotas can help the small manufacturers to solve the problem.

Factory J was set up in 1986. The owner worked as a garment machinist before starting the business. The venture capital mainly came from her sister and other family members. She gets the orders only from one frequent buyer and one sourcing agent. The manager complains that it is quite difficult to estimate the quota price because of its fluctuation. He relies on trading houses to get quotas.

"It's difficult to estimate the quota price. Once you confirm the orders from the agent, you need to prepare for everything, including looking for quotas. We can apply from the Industry Department every year. But it's rare for us to use it because the quantity is very small. The categories we're looking for are always in tight supply. Then sometimes we're looking for orders of EQ." (Mr Pun, general manager of Factory J)

EQ orders means that the orders exclude the calculation of quota price and the agent bears the cost of acquiring quota. This helps to alleviate their financial pressure.

Besides, manufacturers have to purchase the fabrics and to source accessories before getting payments from their buyers. Again, the trading companies give a deposit in advance as part of the payment, usually about thirty per cent of the order price. The manufacturer can purchase the fabrics with such cash available to them. Other costs like sending samples to the buyers and communicating with the buyers are borne by the traders to relieve the financial pressure of the small-scale garment firm.

My field observations suggest that for those factories which have built up the close tie with the trading companies, it is quite rare for them to bypass the latter and directly contact with the buyers.

"If we directly contact the buyers, they will ignore you. They have their own agents in Hong Kong. Besides, you need to invest time and effort to develop the relationship with the buyer. But you are not assured to get the orders from him. That's why we deal with the agent." (Mr Pun, general manager of Factory J)

5.1.3. Managing conflicts and contingencies between two parties

When there are conflicts or any contingencies, like late shipment or a problem in workmanship arising between buyers and local manufacturers, the trader has to play a negotiating role for both parties to find a solution.

"It is more convenient to talk something with a third party. For example, we have different opinion with the buyers, then it is easier to let the third party to speak for us. Sometimes after we have conflict with the buyers, even if they want to work with you in business, it's rather difficult to do so unless there is a third party. When conflict emerges, the third party bargains for the manufacturer." (Mr Yiu, owner of Factory C)

Another factory shares similar experience, the general manager of Factory D explains how the traders can help reconcile the conflicts,

"In our industry, it is easy to get into conflict with the buyers about product quality. Although the agent is responsible for quality control, we need to sign a letter of guarantee to ensure that buyers could claim goods against us. But then the sourcing agent or the trading houses try to make a 50-50 and bargain for us. It's natural because they cannot get any commission from the buyers if their goods are claimed by the buyers."

5.2. Building up direct link with overseas buyers in the GCCs

Fieldwork data show some manufacturers are less dependent on local trading houses and have direct linkage with overseas buyers. It is interesting to note that the background of local manufacturers and their trading business background are quite important to explain why they can bypass trading company and contact overseas buyers directly.

The owner of Factory B graduated from the Institute of Textiles and Clothing of Hong Kong Polytechnic in the late 1970's. Having years of fashion design and merchandising experiences before starting the business in 1985, she has built up good network with overseas buyers. She visited Europe twice a year to keep close contact with her customers. Her buyers are not brand-named companies or chain-store mass merchandiser. Instead, they run retail shops in the European market.

"Most of our buyers are small retail shops with only a few persons, just like our factory. I can better understand their needs and have quick response to them directly. It would be difficult to rely on trading houses. Buyers have to pay commission to the agent. The cost will be higher." (May, owner of Factory B)

Factory I shares similar experience. The owner is a veteran merchandiser and production manager before starting the garment business in 1996. When he decided to start the garment production last year, he discussed with his old buyers to secure the order. Having this pre-established tie, he needs not rely on other trading houses.

Good credibility is also essential to make direct linkage with overseas buyers. My observation is that garment firms with long histories in the industry or those which produce high-end fashions usually have direct links with overseas buyers and are less dependent on local trading houses (Factories E, F, G, H, L and M). There are two meanings for "good credibility." First, garment firms provide high product quality goods and can deliver their products on schedule. Second, the manufacturers are willing to take full responsibility for the goods. If any quality failure arises, local manufacturers share the claims from the buyers.

Besides, it is observed that factories with a trading house background also tend to bypass trading houses and have direct links with overseas buyers (Factory E and H). Factory H was set up in 1968 as a trading and manufacturing-related business. The trading company was mainly responsible for export and import businesses between China and the European markets. The manufacturing operation is on ladies' and men's fashion-oriented clothing. Because of this trading background, they do not need to rely on other trading houses.

5.3. The emergence of "close" and "loose" ties between local manufacturers and overseas buyers in the GCCs

To enter theoretical dialogue with Gereffi on the buyer-driven governance structure, I would unearth the nature of interfirm linkages between buyers and domestic manufacturers in the GCCs. I would examine the dynamics and

complexities of the relationship between these two parties in the buyer-driven commodity chain in this section. Two patterns of ties emerge in Hong Kong. The first is the close-tie pattern, which is characterized by its negotiated and contested nature. Another is loose-tie pattern, which is dominantly characterized by its instrumental nature. Every domestic manufacturer has a network of order sources, which may include frequent buyers and non-major buyers. Frequent buyers give orders to manufacturers on a stable basis, and non-frequent buyers do not. I would mainly use two criteria to classify what the tie is. The first is whether the manufacturer can clearly state the number of frequent buyers and its share of the production capacity. Second, the manufacturer's subjective perception on the relationship with buyers. If the manufacturer can clearly state the number of major buyers who would assure order stability to support the production capacity, and describes the relationship with each other as close (or other similar meanings), I would then classify their relationship as a "close-tie" pattern. On the other hand, if the manufacturer cannot state the number of frequent buyers and perceives the relationship with the buyer as "loose" or "no relationship at all", then I would classify the tie as a "loose-tie"¹.

I would then examine the characteristics of these two types of "tie" in the following dimensions: form of co-operation, governing principle in order match, how do they resolve conflicts and contingency, and the manufacturers' subjective perception on their relationship. These dimensions are anchored in the everyday interaction between both parties. This would shed light on the nature of ties between

¹ But there is one case (Factory F) that falls in between these two categories. Although the manufacturer of Factory F can clearly state out the number of major buyers and worked with them for over ten years, he described that he has a very loose relationship with the buyers. But I still classify this case into the category of "loose-tie" pattern.

both parties for our understanding of the substance of the governance structure in the buyer-driven commodity chain.

5.3.1. Close tie pattern

Local manufacturers have built up long-term relationship with overseas buyers for eight to twenty years, depending on the histories of the garment firms (Factory B, C, E, G, H, I, L and M). Stable relationship with buyers guarantees order stability to the manufacturers. This enables them to plan ahead in organising the production. Manufacturers usually discuss with their frequent buyers at the beginning of a year about the orders and the required production capacity. Then the manufacturer plans their production schedule and the required quota. Perhaps the situation described by the managing director of Factory M can help us to understand the situation,

"Every year we've plan on the use of quotas and decide which categories we are going to sell, which categories to be reserved for our factory. We gather information from the buyers and from the market when we formulate our plans. So at the beginning of every year, we discuss with the buyers on their order sizes."

Again, the manufacturers also inform their frequent buyers in advance the production capacity will be full that year. They try to look for other alternative ways, like subcontracting.

Frequent buyers are usually major sources of orders (accounting for 70 to 90 percent of all orders) for garment firms. Large-scale factories are likely to have larger number of major buyers, each with a different price range (G, L and M), while the small factories having few major buyers (Factory B, C, E and I).

Governing principle- network matters

In the close-tie pattern, price is not the only governing principle for both parties for order match, which counters the economic efficiency argument. Local manufacturers do not necessarily reject orders even if the price does not reach their

expectations. Instead, the expectation of "reciprocity" exists between both parties. Besides, manufacturers handle in a different manner towards frequent and non-frequent buyers in case of rejecting orders. The following experiences can illustrate this situation.

Factory G has built up over ten years' relationship with several major buyers in the past decades. The manager maintained that they received orders which are not profitable from major buyers.

"When their business is not good, we support them. We earn less in those occasions. When their business is good, the buyers will raise prices for us. It's difficult to be too calculative. The buyer has to look after other suppliers as well. You give him the mercy and do him a favour and they will do you a favour as well some other time." (The manager of Factory G)

"Doing a favour" for each other implies that they expect a long-term relationship. This prevents them from acting in an opportunistic manner. Neither party is pushing too hard to maximize their own interest at the expense of another party. In fact, it is quite costly for major buyers to look for other suppliers if they keep switching sources of supply. Other factories share similar experiences under the close-tie pattern. The owner of Factory I, before starting the business last year, worked with the buyers for nearly eight years in his previous job. He explains that personal relationship matters in getting orders.

"We offered a price to a buyer but he couldn't give us the order. We discussed for several times but still he couldn't give us. I received the orders eventually and told him this was not a prior instance. We've worked together for so long, we know each other well. I understand that "this time I do you a favour and then you can't take advantage over me every time. He gives me a reasonable price the next time. They'll give me reasons why they can't accept my price. I accept this if it's reasonable. This is due to friendship." (Owner of Factory I)

Here, the notion of "friendship" is not in a pure sense of "fellowship" or social intimacy. There exists a symbiotic meaning behind the meaning of friendship. Just like "doing favour for each other" as mentioned above, it shows that local manufacturer also expects a reciprocity with his buyers in the long term. It is less

likely that he would maximize his own interests in an opportunistic manner.

Similarly, the general manager of Factory E maintains that she has many similar experiences,

"There comes a time when the retail market is not good and the buyers offer a very low price for our goods. We still need to survive. If I don't protect the customers (through accepting a lower price), then we'll be adversely affected. If buyers do not constantly press down our price, we still accept a lower price."

Besides, the headquarters give buyers a budget to purchase goods every year. Then the buyer purchases the goods within the budget. Sometimes the cost of purchase exceeds the budget. In case of close-tie pattern, the manufacturer is willing to help the buyers.

"The buyer chooses the fabrics with very high quality, but the cost is quite expensive and exceeds the budget. We try to help the customers and source the required fabrics. In some cases we may make a loss in the transaction. We're willing to do so. The buyer always supports us by us stable orders. We would like to support them. So even the situation like this we're willing to help them. (The manager of Factory E)

Besides, local manufacturers accept low-price orders from their frequent buyers occasionally when these orders are originally given to other East Asian countries. The Asian manufacturers cannot complete the orders for some reasons. Factory C has such experiences in their daily operation.

"Our frequent buyer also source goods from other Asian countries. Some manufacturers are not responsible enough. They don't keep their promise when the price from other buyers are more attractive, then they just give up the original orders. Our buyer asks us to help them within a very rush period. Of course, since we have to keep our reputation, we'd like to do so... "I think, well, let's subsidize him (the buyer) this time. We're farsighted enough about our cooperation. This time I help him, it's not a great problem" (Mr Yiu, the owner of Factory C)

In this process, the owner is very conscious in evaluating the importance of the buyer to his business. The owner only accepts those orders from frequent buyers. If this is the new buyer, the manufacturer does not accept such orders. Getting "residual" orders is a way for local manufacturers to keep the relationship with their buyers.

Besides, the manufacturers would assess the importance and potential cooperation with prospective buyers in his network in their consideration of whether he gets the orders or not. Therefore, if the buyer is new, it is more likely for the manufacturer to apply the price principle, and vice versa.

The following experiences of some garment firms can illustrate the situation.

"If the quotation price is low, we assess whether the customer is important to us. Usually we receive orders with different assortments and style, perhaps some are profitable while some are not. Sometimes we don't accept this. But we need to consider the relationship with the customer. If this buyer is important to us and we want to keep long-term relationship with him, we would accept it." (Miss Merry, owner of Factory B)

The above shows that network is quite significant for the manufacturers to determine an order match with the buyers. But in case of rejecting orders, the picture is more diverse. My field observations suggest that both price and social relations arise as the governing principles in order rejections, even though the manufacturers have long term relationship with the buyers. Like the case of Factory M, the director maintains that they do reject orders if the buyer, a major buyer though, suppresses the order price.

"We have a frequent buyer from Germany and we have worked with him for over five to six years. He asks me for a price cut because of the difference in the exchange rate. The Deutch Mark becomes weak. He asks me to subsidize the difference of the exchange rate. It's impossible. I tell him that I understand his difficulty, I can help you by not increasing the price. But I can't subsidize the difference in the exchange rate. What if the Deutchmark is strong in the market? At the end, we reject the orders." (Mr Hong, the directory of Factory M)

Managing conflict or contingency with the buyers

In this aspect, power relationship as well as contested relationship exist in handling contingencies or conflicts with the buyers. First, I would describe how contested relationship exists under the close-tie pattern. In the industry, both buyers and manufacturers concern about the quality of goods, production schedule and delivery of the goods. Local manufacturers believe that there are many conditions that

are beyond their control. This include technical problems in the production, delay in material sourcing and so on. Both parties in the close-tie pattern come to discuss how to deal with the problems. They are cooperative rather than acting in an opportunistic manner. Keeping on-going social relations between both parties are important in this light. Manufacturers discuss with the buyers and look for other alternatives that both parties accept. Buyers do not necessarily make claims against their suppliers.

"There are many things beyond our control. Sometimes it is difficult to predict an accurate date of delivery. It's not something like machine-making that can be standardized. We may overlook something in such a labour-intensive industry. Sometimes we're a bit late. Old buyers understand our situation and tolerate us. "Don't do this next time." It's different in case of infrequent buyers, they would complain and insist in making a claim against us, threaten to cancel the orders in case of late-shipment. It is certain that we can't handle the new buyers as smoothly as the case of the old buyers." (The manager of Factory G)

The above shows that if there is anything wrong in the garment production, frequent buyers are more tolerant than the infrequent buyers. Likewise, it is more likely that frequent buyers can tolerate the quality difference. Instead of turning to disputes between two parties, they could negotiate and look for alternative.

Besides, contingency can always arise in the whole process. For instance, there is communication gap between merchandising department and marketing department of the brand-named company and they need an earlier date of delivery. The buyers need to discuss with the manufacturer to get an earlier delivery. In the close-tie pattern, local manufacturers are willing to work with them.

Case L, a multinational group, has built up relationship with the major buyers from the US for over five years. Mr Pao, the managing director of the group, explains how they handle contingencies in their daily operation.

"Whenever there's trouble on either side, we sit down and frankly talk with each other. What difficulties do they encounter and how I can help them. Once the buyer told me that their department store had a big sales promotion but they were out of stock. Then we needed to rush our production

and delivered the goods by flight. But the problem was that the buyer did not include the flight cost into his budget. The merchandiser confirmed the order. So, they didn't have such budget. All right, I helped them by sharing part of the flight cost. Why did I do the buyer a favour? Because I may face late-delivery of the goods for some reasons next time. and the buyer will help us. This is a kind of mutual help. If the transaction is only a one-shot game, how can I help him?"

Again, the expectation of "reciprocity" between both parties enables the continuation of mutual-dependent relationship. In this way, the economic actors are locked into a relation that the mutual benefits will be achieved only if transaction takes place but the interests of the partner counts. Both parties do not easily switch to another party in the industry.

Emergence of power relationship in latent way

Apart from the symbiotic relationship as shown above, power relationship between the buyer and the manufacturer is manifested in a very latent way. If the frequent buyer is the major order source of the manufacturer, it is more likely that the manufacturer follows the instructions of the buyers even though sometimes the demand is not so reasonable. Meanwhile, if the manufacturer has limited organizational resources, it is likely that they are in a subordinate position in handling conflicts with the buyers in the close-tie pattern. It is observed some manufacturers complain that their frequent buyers take advantage of them. This refers to those big buyers in the retail market. I will explain how this power relationship emerges in conflicting situation.

It is known that the retail markets in the North America and other European countries have been undergoing major changes in the 1990's. The 1996 KSA report shows there is continued growth and consolidation of the larger retailers in the US market (KSA:1996:II7). The top ten retailers in North America account for 70 per cent of the total sales of the 115 publicly listed retailers. Giving the growing

consolidation in the retail market and keen competition in the market, buyers are facing great pressure that the goods must be well-sold when buyers have a budget which is approved by their headquarter. In some cases, they would shift the burden to the manufacturers in the NICs.

"Sometimes the buyers make a wrong decision to purchase inappropriate goods which are not well sold. The buyers have to be responsible to their boss and then they shift the burden to us. They pick up some minor mistakes in the garment. For instance, the tolerance form of the garment size is half an inch, they find that the length is longer by half inch, which is beyond the tolerance form. This is common in garment production because of the fabrics' shrinking rate. Consumers do not care about this. But then the buyers lay claims to us because we have gone beyond their tolerance form. In many cases, it is because the goods are not well sold. Then they shift the burden to us." (Mr Yiu of Factory C)

Most manufacturers realize that when the goods are not sold well in the retail market, it is easy and convenient for overseas buyers to shift the burden to local manufacturers. The owner of Factory C realizes that it was not so common for overseas buyers to make claims towards them in the 1980's. In the nineties, overseas buyers make claim over local manufacturers more frequently when competition is very keen in the retail market.

"There's a joke in our industry. Previously we have reserved about five to eight per cent of the sales amount for the claims. We take it as a service charge for the buyers. However, this trend is rising when buyers almost make a discount on our goods on every orders. It depends on whether you are lucky or not. The buyer also faces great pressure to ensure their budget is balance. Therefore they find his own means to cover the deficit. Making claims against us is the easier and convenient way." (The manager of Factory C)

This kind of unreasonable claim over manufacturers is a kind of power relationship over local manufacturers. Factory C depends on three major buyers that occupy near ninety per cent of the production capacity. If the manufacturers are dependent on few buyers, it is more likely that this kind of power relationship emerges. Factory C is forced to compromise and accept the claims if the buyer is a long-term partner.

"If we don't accept the discount payment, the consequence will be that the buyer will not do business with us next time. The goods are already delivered to the buyer. If we insist, what is our chance

of success? Perhaps it will take longer to settle. That's costly. It's difficult for small and medium scale factories to fight with the buyers, they are large-scale importers or buyers in the US,"

Nonetheless, some garment firms can enjoy more bargaining power in facing the unreasonable claims from overseas buyers. Like the case of Factory M. When the buyer inspects the goods before packing, he is dissatisfied with the workmanship and is prepared to make a claim against the factory. The manufacturer of Factory M rejects the claim and does not send the goods to the buyer. He can do so because the group has thirty frequent buyers. He does not care to lose this buyer. It is noted that he is not tied by any particular buyer in the market and enjoys more bargaining power in facing the unreasonable claims from overseas buyer.

Factory G has established a practice of limiting orders from each frequent buyer to not more than ten percent of the total production capacity. By doing so, they can enjoy more autonomy in organising the production.

"If the buyer is demanding, then we need to follow his idea. But sometimes the customer has his own idea of organising the production line but we disagree.... We want to set the production that can meet the requirements of most of our buyers, instead of any particular buyer." (The manager of Factory G)

Local manufacturers attempt to diversify their order source to avoid control from any particular buyers. This would allow them to have more autonomy in organising the production.

Control on competitors' orders in the GCCs

When both parties are locked into a relation, it is worthwhile to examine whether or not overseas buyers exert control over manufacturers in getting orders from other competitors. It is noted that in a close-tie pattern, the relationship between both sides is not purely a market exchange. To a certain extent, the close-tie pattern is characterized by a network form of cooperation in such a way that trust and

indebtedness is involved in their interaction. Powell has mentioned that in the network form of interaction, the preferred option is often creating indebtedness and reliance over the long haul. The sanctions towards each party are typically normative rather than legal. (Powell:1992:210) Concerning buyers' control over the manufacturers, there are two forms of control. They are formal and informal. Formal control means that the buyer gives explicit instructions to local manufacturers, either through legal contract or verbal agreement, so as to prevent them from getting competitors' orders. Informal control is more latent and normative. The buyer does not clearly tell the manufacturers how he should handle the competitors' orders. Instead, the manufacturer perceives the signals from the buyers. Nonetheless, it is also found that local manufacturers are very conscious to seek for autonomy and resist such control from their buyers.

Factory G's frequent buyers are brand-named companies. They explicitly told the manufacturer not to get orders from their competitors. This is because they are afraid that product information may be leaked to their competitors. For instance, when the competitor visits the shopfloor to inspect the garment, he may know what kind of fabrics the other firms are using. Therefore, it is quite common that the buyers do not like their supplier to be the same supplier for their competitors. But Factory G is cautious and avoids any control from their major buyers. As mentioned above, the proportion of orders from each frequent buyer does not exceed ten per cent of the total production capacity. Besides, the group supplies different types of product lines for their buyers to avoid conflicts between competitors. In the US market, Banana Republic and Tommy Hilfigers are competitors. Factory G supplies casual wear to Banana Republic, and formal shirts

to Tommy Filfigers. In this way, the buyers will not restrict Factory G to get their competitors' orders. Resisting control from any particular buyer is quite common in the close-tie pattern firms. All the manufacturers I have interviewed say that they are unwilling to be tied to and controlled by any particular buyer. This means they lose their autonomy if they become too dependent on one buyer.

"I know a friend who works with Marks and Spencer. They have very close control over production and they even instruct how sewing machines should be placed. They send their people to the workplace and monitor the process. They act as if they were the boss. It is inconvenient and troublesome if the buyer has too much say about production. I don't like to be tied by any single buyer. This makes me feel like a puppet and lose the diligent spirit." (Mr Tang, the owner of Factory I)

In other cases, overseas buyer does not explicitly restrict the manufacturers to supply goods to their competitors. They give local manufacturers more subtle signals. This kind of informal control is subtle. In the case of Factory B, the owner thinks that buyers do not want her to get orders from their competitors.

"They do mind if we supply goods to their competitors. They won't explicitly tell us about this but this is understood. Even when they are selling different products, they don't want us to supply goods for their competitors. But I have my autonomy. We can't say I just supply for one buyer and reject others. I don't like to become a main supplier for one buyer; it's too risky. If there is anything happening to this buyer, we'll be controlled by them. I would try to avoid the clash of design if two buyers are the competitors."

All the informants say that they are not willing to become the main vendor for any single buyer although this guarantees stability in order. This means "putting all the eggs in one basket". Rather, they prefer to diversify their buyers and markets and avoid being controlled by any particular buyer. But in some cases buyers would not restrict manufacturers from getting orders from their competitors.

Cooperation with Buyers

I would classify the form of cooperation between local manufacturers and buyers by two forms. One form is the sharing of information in product development, marketing and technical knowledge transfer through the OEM experience. This

facilitates the manufacturers to move beyond the OEM production in the commodity chain. The second form is that buyers and manufacturer have mutual development goals in their business. These two forms represent different degrees of cooperation. The first form is manifest in the daily interaction between two parties and the second implies a stronger tie.

Regarding the first form, almost all manufacturers have shared product information with their buyers. Local manufacturers discuss with their buyers design, marketing trend, use of fabrics and other accessories. The designer, merchandiser and manufacturer keep constant communication and cooperation in the whole production process. It is a learning process for both parties to share their expertise knowledge in production and marketing. Especially when manufacturers supply goods for famous brand-named buyers, this can help them to improve their workmanship and build up reputation in the market.

For instance, Marks and Spencer has built up close tie with their suppliers for ten to twenty years and their relationship is characterized as a "close-tie" pattern. Since the quality requirement towards the supplier is very demanding, garment manufacturers have to take full responsibility if quality is not up to the buyer's standard (Hong Kong Economic Times, 26.3.1997). This enables the suppliers to enhance their reputation in the market. Moreover, transfer of firm-specific knowledge from buyers to local manufacturers is possible in the close-tie pattern, especially when buyers have a manufacturing background. Although the garment industry is very labour-intensive, there exists some technological innovations in garment production and management like in the styles and composition of fabrics or sourcing materials in the past ten years (Quick Response Report). Local

manufacturers need to acquire updated knowledge in garment-making and sometimes they need to make use of the firm-specific knowledge of the buyers.

The manager of Factory G recalls his experience of making wrinkle-free garments. This concept came from Japanese buyers a few years ago and few manufacturers knew the technique. The Japanese buyer can transfer his firm-specific knowledge in making wrinkle-free garments to Factory G, given they are in a close-tie relationship. Nonetheless, the manufacturer does not depend on the buyer's specific knowledge. He is active to acquire updated knowledge by keeping in touch with the Textiles and Clothing Department of the Hong Kong Polytechnic University.

"We develop knowledge as long as keep in touch with the market trend. We keep the market sense and learn by our own means. We can learn the technical knowledge through the academic institute. Perhaps it takes some time to take up the new techniques, but we don't want to be tied by the buyers, led by the buyer. We prefer to master our own business." (the manager of Factory G)

In other cases, the sharing of product information is less important. This is especially so when local manufacturers integrate retailing and garment production and handle the OBM. For instance, Factory L is doing OEM and OBM. They have a strong team of twenty-five designers to support their own brand retailing and production. They can serve overseas buyers by providing a whole package of service like product design and marketing activities.

"When they come to buy goods from us, we provide the whole collection and ideas of promotion to our buyers. Our designers even design the display window for the department stores." (The managing director of Case L)

With regards to the second form of cooperation in which both parties have mutual development goals, only Case L falls into this category and others do not have such cooperation. Case L cooperated with his buyer when the group prepared to develop its retailing business in the 1990's. When the buyer's company faced financial crisis, the buyer asked the group to give them financial assistance. The group

decided to acquire the company's shares at that time. They attempted to improve the financial situation by sending a financial expert to the buyer's company in Australia. The retail business enjoyed a favourable growth after the Case L has acquired the buyer's company. It is noted that the strategic aggressiveness of the group, accompanied by the financial crisis of buyer, makes the cooperation between two parties possible.

In some cases, overseas buyer keeps his suppliers informed about the company's development and asks the Asian supplier to act as his agent for sourcing other goods. Case I falls into this category. One of his frequent buyers from Germany keeps him informed of the progress of trademark registration in the EEC market. The buyer is prepared to develop different product lines in the market. In this process, the buyer asks the owner of Factory I to be his agent in Hong Kong and help him to find new suppliers for other products in Hong Kong.

To sum up the characteristics in the close-tie pattern in the buyer-driven GCCs, it is noted that price is not the only governing principle in determining order match. Rather, personal network which is embedded in ongoing social relations and expectation of reciprocity between both parties ensure the order match. Besides, it is also shown that the relationship between buyers and manufacturers is more complex and dynamic. Power relationship emerges in the close-tie. Symbiotic relationship also exists in their interaction. Meanwhile, local manufacturers try to search for their own autonomy by making contacts with different types of buyers and avoiding being controlled by any particular buyer in the market.

5.3.2. Loose-tie pattern

In this section, I would examine the characteristics of the loose-tie pattern.

The loose-tie pattern is characterized by its short-term relationship and order instability with overseas buyers. If they cannot state the exact number and their share of order, I would classify that as an indicator of order instability. In addition, if the manufacturer sees that they keep detached (or similar wordings) relationship with the buyers, I would classify that as a loose-tie pattern with the overseas buyers.

Order instability and price as the governing principle for order match

In the loose-tie pattern, it is difficult for local manufacturers to maintain long term relationship with overseas buyers. It is quite common those buyers are looking for low-end to medium-end products in mass volume. We can look at the experiences of several firms in the loose-tie pattern in the following section.

Factory D makes knitwear product like trousers, sweatshirt, jackets for men's and ladies wear. Price range is low-end to medium-end price. The major market is the US at the initial stage of development. The manufacturer diversified the market to the European, UK and East Asian markets in the early 1990s. The manager suggests that "personal network" is quite important in getting orders from the sourcing agents or trading companies. He also gets orders from his friends from other factories. However, personal network does not guarantee stability in the source of order. Any change in the personnel in the agents can end this relationship. This in turn affects the order stability. Management describes the relationship with buyer as very loose.

"We've only very loose relationship. We only keep with them at a maximum of three years. After three years, person who used to be in charge left and the new one has his own list of suppliers. These suppliers replace us." (The general manager of Factory D)

The manager says that it is difficult to keep relationship with the buyers. Due to keen competition, the sourcing agent or buying office can not guarantee constant

order flow after the first transaction. Moreover, since his factory is not the major vendor of the overseas buyer, the relationship remains weak.

"Our relationship with the buyer is very loose. It's really loose. Unless your factory is large, it's difficult for us to have equal position. It depends on whether we can match the buyers. Just like us, the buying office is bigger than us and we are not their main vendor, then our bargaining power is relatively small. If our buyer is the speciality store, then our bargaining power is relatively bigger."

In contrast with the close-tie pattern, order match or rejection are primarily based on the price principle and technical efficiency consideration in a loose-tie relationship. The manager considers the order quantity, coordination of production flow and profit margin when the buyer gives him the order. Moreover, he is also concerned about whether he can fully utilize the labour power in the production.

"We intentionally get the orders with drag, cover and sew. () For instance, the garment with round collars, short-sleeves with no stem. There are different production stages. The price is not high, but workers can finish the whole process quickly. This production flow enables us to increase the output and keep the productivity. Especially in China's plant, we need to pay fixed cost there. Workers live there and eat there, they work as if they were at home. I need to keep them to work."

The manager is willing to accept low-end orders in order to support their production in China. Since the relationship between both parties is so weak, the manufacturer has to seek different types of buyers in the market in order to support his production.

The above also applies to Factory K. Factory K is a small-scale factory producing ladies and men's knitwear. Its order is mainly secured from several trading companies and sourcing agents. Although the manufacturer has been working with the buyer for over ten years, orders are not stable.

"Sometimes they give us the orders irregularly. Sometimes once or twice a year." (Mr Chu, the owner of Factory K)

The instability in order source makes the manufacturer difficult to maintain close tie with the buyer. So, Factory K tries to diversify the market by looking for

more buyers to ensure the order.

Meanwhile, the second-tier producers who are located in the bottom of the stratified industrial structure have different experiences. Factory A concentrates on doing cut-and trim for parent factories and the owner has never got orders from any foreign buyers or local traders. The owner rarely meets the overseas buyers, except when buyers are accompanied by the parent factory's representative visit his factory.

I observe that in some cases, although the garment firm can maintain stable relationship with buyers, the manufacturers still apply price principle to determine the order match. Factory F produces for several famous fashions brand names like Armani, Espirit, Calvin Klein. It has maintained stable relationship with its buyers for over ten years. But the manufacturer only consider those orders which can make a profit. He deals with frequent buyers and new buyers in the same manner.

"It's very rare. If the orders are not profitable, how can I be accountable to my shareholder? Every year we have a cost breakdown for every order. If it is not profitable, why should I get it? I only choose the orders with greater profit." (The managing director of Factory F)

He suggests that he does not have any problem in getting orders. This kind of bargaining power enables the manufacturer to have greater autonomy in choosing their buyers.

Managing conflicts or contingency with the buyers

Whenever there are conflicts between both parties in the loose-tie pattern, it is more likely that they tend to act in an opportunistic manner than that of the close-tie pattern. Each party tries to maximize their own interest without considering the other's party interests because they only expect a short-term exchange. Usually, the

conflicts are over issues about workmanship or discount claims in case of late delivery.

Again, in case K, the owner has dealt with unreasonable claim from their buyers in a loose-tie relationship. He says that since the competition is very keen in the retail market, buyer shifts the burden to the manufacturers once the former makes a wrong decision that the goods are not well sold. It is quite common that the buyer would make claims against the manufacturer on the product quality.

"Sometimes they claim us some thirty to fifty per cent of the goods. It's so unreasonable to us. Like the sizing of the garment. We accept the workmanship but they just force you that is unacceptable. They require us to remake the products. We won't do the business with such troublesome buyer next time. We're so dissatisfied with each other, why should we work together next time, I just look for another buyer in the market." (The owner of Factory K)

The experience of Factory K is quite similar to that in the close-type pattern. But the difference is that in the close-tie pattern, the manufacturer still keeps the relationship with the buyer. But in the loose-tie, the manufacturer terminates the cooperation. It is because the manufacturers in the loose-tie tie prepare to look for other new buyers in the market, rather than being tied up by the buyer if they do not have good working relationship.

Control over competitors orders

In this respect, buyers do not care whether the manufacturers get orders from their competitors. It is because neither party need to depend on each other and buyers do not restrict whether manufacturers supply goods for other competitors. In contrasts, some buyers would like to get information about their competitors through the direct contact with manufacturers.

"They won't care whether we supply goods to their competitors, instead the buyers are interested in knowing the information about their competitors from us. For instance, what kind of fabrics the competitors use, the style of the collection, and so on. I serve like an information pool for them. Of course I'm careful not to leak so much information. I just tell them what kind of fabrics that the others use in the market. The US buyers would like to know something from the European buyers and so do the European buyers." (The managing director of Factory F)

It is noted that instead of restricting the manufacturers in getting orders from their competitors, they depend on the manufacturers to gather information from their competitors.

Minimal cooperation with overseas buyers

The cooperation between local manufacturer and overseas buyers is only at the form of purchase and sales of goods and there is no common goals between two parties. The manufacturer does not pay attention to the share of product development or knowledge transfer. When asking what kind of experience being learnt in the OEM in the industry, manufacturers in the loose-tie pattern has completely different perception from those in the close-tie pattern. They have little incentive to get product innovation or technology transfer from the buyers.

In the case of Factory D, there is no great change in the product type in the past ten years. When asked what kind of OEM experience they learn from the buyers, the manager admits that they pay little attention to this issue.

"To us, there's nothing special about the brandname of the product. We don't need to do the design. The buyers gives us the design sketch and then we produce the samples for them. They are almost the same. The most important thing is to make the production flow faster and balance the production." (The manager of Factory D)

So is the case of Factory J. The frequent buyer supports less than ten percent of the total production capacity. Having served the European buyer in the past ten years, the tie remains very weak and instrumental. The interaction between the two parties only takes place during the purchase and sales of goods.

"The buyer come to visit us once a year, discuss with us about the price and the order quantity. That's all. We make the sample for him, send the sample for their approval and then start the production." (The manager of Factory J)

To recapitulate, the relationship in a loose-tie pattern is instrumental in character. The following table gives a summary on the characteristics of these two

patterns.

Dimensions in the interaction between two parties	Close-tie pattern (Factory B,C,E,G,H,I,L,M)	Loose-tie pattern (Factory A,D,F,J,K)
Order stability and years of relationship	<ul style="list-style-type: none"> • long-term • stable 	<ul style="list-style-type: none"> • short-term • unstable
Governing principle in getting and rejecting order	<ul style="list-style-type: none"> • network form • price is not the mechanism, rather relationship matters 	<ul style="list-style-type: none"> • price matters • profit-making is the major concern
Managing conflicts between both parties	<ul style="list-style-type: none"> • negotiated and bargaining, trust emerges 	<ul style="list-style-type: none"> • act in an opportunistic manner
Control on competitors' order	<ul style="list-style-type: none"> • diverse response, some control while some do not care 	<ul style="list-style-type: none"> • no control
Control on production line	<ul style="list-style-type: none"> • loose 	<ul style="list-style-type: none"> • loose
Form of cooperation	<ul style="list-style-type: none"> • share of product concept and product development • certain degree of technical knowledge transfer • share of marketing information 	<ul style="list-style-type: none"> • exchange relationship
Manufacturer's subjective perception	<ul style="list-style-type: none"> • inter-dependent 	<ul style="list-style-type: none"> • instrumental

Table 5.1. Characteristics of the close-tie and loose-tie pattern between buyers and local manufacturers in the buyer-driven commodity chain in Hong Kong's garment industry

5.4. Discussion and implications on the governance structure of buyer-driven GCCs

The unravelling of these two pattern of inter-firm linkages with the buyers in the buyer-driven GCCs sheds light on the substance of the governance structure in Hong Kong. Gereffi suggests that there is power and authority relationship within this governance structure that determines how financial, material and human resources are allocated within the chain (Gereffi:1995:57). In my study, I would suggest that the picture is far more complex and dynamic in HK. There are mainly two types of inter-firm linkages between buyers and manufacturers in the GCCs, which represents two different kinds of relationship with the buyers and connect them in the product world. Informed by the resource dependency perspective, it is found that the

interorganizational relationship between buyers and manufacturers is a constant struggle of control and discretion. In the close-tie pattern, on one hand manufacturers are able to maintain stable relationship by getting orders and trust emerges in governing the order match, on the other hand, there are instances that overseas buyers tend to exert control over the manufacturers when they get the competitors' orders. The power relationship only exists very latently between the two parties when they need to handle contingencies or conflicts. It is also observed that domestic manufacturers are conscious of the need to acquire resources (like technical information on product development in case G) elsewhere in order to avoid dependency on any particular buyer. Their experiences demonstrates that domestic manufacturers try to maintain their autonomy and avoid control from any particular buyer when they interact with overseas buyers. The close-tie and loose-tie patterns embedded in the Hong Kong's context help us to fill the gap on the substance of this governance structure and leads us to rethink the thesis of "authority and power relationship" inside this governance structure.

First, regarding to the role of the buyer in the GCCs, I would suggest that while Gereffi places emphasis on how big buyers shape the global production network, it is unclear how buyers of different market niches and characteristics produce the same effects in terms of power and authority relationship over local garment manufacturers in the governance structure. Different types of buyers have different ways in keeping close or loose ties with local garment manufacturers. The following table summarizes the nature of buyers and their ties with manufacturers.

Cases	Close-tie or loose-tie	Types of buyers	Form of cooperation
A	loose-tie	no frequent buyers, depend on the parent factories, medium-end knitwear garment	mediated by the parent factories, no direct interaction with the buyers
B	close-tie	Frequent buyers, high-end to medium-end orders, fashion-oriented retail shops, small bundles	design service to overseas buyers, transfer of fabric knowledge to buyers
C	Close-tie	Frequent buyers, medium-end orders, department stores	knowledge transfer to the East Asian buyers through the interaction with the US buyers
D	Loose-tie	no frequent buyers, medium-end to low-end, speciality stores	minimal cooperation, only on production
E	Close-tie	Frequent buyers, medium to high-end orders, department stores, private labels	knowledge transfer from buyers, share of marketing information
F	loose-tie	have frequent buyers, medium to high-end fashions	buyers depend on the expertise knowledge of the manufacturers in garment-making
G	Close-tie	frequent buyers, bulk buyers, different price range of the different product lines	little product knowledge transfer, the manufacturer depend on their own competitive edge
H	Close-tie	Frequent buyers, medium-end fashion orders, brand-named companies	share of marketing information
I	Close-tie	Frequent buyers, medium-end orders, children's wear, no special brand-named	design function to buyers, share of marketing information, keep on the progress of trademark registration from the buyer
J	Loose-tie	A frequent buyer, a sourcing agent, medium-end knitwear products	share of marketing information
K	Loose-tie	medium-end orders, European buying office	share of marketing information
L	Close-tie	Frequent buyers, medium-end orders from the US brand-named companies, speciality stores	value-added activities like design and marketing services to the buyers takeover of the retail business of the buyer in Australia
M	Close-tie	Frequent buyers, medium-end for woven wear, department stores	share of marketing information

Table 5.2.: Types of buyers and form of cooperation in Hong Kong's garment industry

We note that in the close-tie pattern, buyers are usually the brand-named companies, or private labels of department stores in the buyers' market which supply medium and high-end orders to local manufacturers. In the loose-tie pattern, the buyers are usually the medium or low-end orders, or without any specific brand-names. To give a possible explanation for such difference, I would suggest that buyers in different strata have different global sourcing strategy in the NICs and other periphery countries. This may affect how they keep ties with the overseas suppliers in organising their production network. In case of bulk buyers (like mass merchandisers) that sell low-priced store brands, buyers can source the goods in more remote tiers and low-

cost, mid-quality producers in China or other South East Asian countries like Indonesia, the Philippines, and Thailand. Bulk buyers are not necessarily locked into a relation with the Hong Kong's garment manufacturers when other East Asian manufacturers can do it as well. Regarding the brand-named companies or fashion-oriented buyers, they require more high-quality workmanship and need quality assurance from local manufacturers. Then it is more likely for them to develop a relation with local manufacturers.

Second, regarding to the role of local manufacturers, I would suggest that these two patterns of ties serve as the governing principle for both parties in getting orders, managing conflicts, orders' control and form of cooperation for both sides. To engage in a dialogue with Gereffi's buyer-driven governance structure, the empirical findings show that the picture is far more dynamic and contested. Local manufacturers, whether in the close-tie or loose-tie, try to maximize their autonomy and avoid subordination and dependency on any particular buyer. Some garment factories even managed to move ahead and become buyers. (like Case L)

Drawing out two types of ties between overseas buyers and manufacturers in the GCCs not only helps us to unearth the nature of buyer-driven governance structure, but also leads us to ask the following questions: How do these two different patterns of ties affect the manufacturers' decision on industrial relocation? Do overseas buyers push local manufacturers to relocate? These are the questions to be examined in the next chapter.

Chapter Six:

Relocation Strategy of local manufacturers in different ties with buyers

In this chapter, I will examine the relocation strategy of the garment manufacturers and assess the buyers' role in influencing local manufacturers' relocation decision. Gereffi highlights the importance of commercial capital in initiating the production network in the buyer-driven governance structure. As mentioned in the last chapter, local manufacturers have close-tie and loose-tie with the buyers in the commodity chain. This represents different types of inter-firm relationship in the governance structure. While the inter-firm relationship of the close-tie type is relatively mutual-interdependent, that of the loose-tie is more instrumental. Then, how do foreign buyers affect the relocation decision of the local manufacturers in different ties? I would bring out the relocation experiences of the manufacturers in this chapter. How do local manufacturers make the relocation decision in the past decades? How do they perceive the environment? Why is "relocation" perceived to be the "the only-option" of restructuring strategy? How do they interact with the buyers in the relocation decision? On the other hand, it is observed that some garment firms retain the production base in Hong Kong. This is also an interesting area to be examined.

According to the resource dependency perspective, social actors (the influencer) must possess resources that are critical to the organization and power relationship exists in inter-organizational relations. The organization's activity will be constrained and controlled by the influencer. In discussing the relocation context, it is worthwhile to examine Gereffi's buyer-driven thesis by utilizing the resource dependency perspective. As stated in the last chapter, our findings show that while power relationship exists in the close-tie pattern, manufacturers are aware of the need to maintain their own autonomy in the everyday interaction. As regards to the relocation decision, under what kind of conditions do overseas buyers exert influence over the manufacturers? If it is not the

buyers who play the critical role in leading the relocation, how is the relocation decision arrived?

Our findings also show some manufacturers relocated their production in the late eighties. In what way and under what conditions do the domestic manufacturers learn from other manufacturers' action as to take relocation as their major restructuring strategies? How does the mimetic isomorphism occur among the late-comers?

The chapter will be divided into three parts. The first part describes how the manufacturers interact with the buyers on their relocation decision. It is found that there are diverse responses from the buyers upon the relocation strategy in different ties. I would suggest that this raises critical questions to Gereffi's thesis about the critical and dominant role of buyers in shaping the production network within the buyer-driven commodity chain framework. Besides, the relocation experiences of the domestic manufacturers also help us to challenge the neoclassical economic explanation that "relocation" is solely an efficiency-maximization consideration.

The second part will examine what forces that motivate local manufacturers' moving their production to China or overseas production. I would compare those garment firms which have different timing in relocation. I would identify the institutional factors as well as the subjective perceptions of the manufacturers that shape their restructuring strategy. This section aims at posing an alternative argument against the buyer-driven argument suggested by Gary Gereffi.

The third part will describe the experiences of the factories that do not participate in the relocation. Some local manufacturers retain their production bases in the territory and manage to survive in the industry. I am interested in examining why and how they survive without relocation. What is their restructuring strategy of enhancing their competitive edge in the market? By unraveling the restructuring experiences of the garment firms, I

develop a typology of restructuring strategies of different garment firms. It helps us to shed light on Hong Kong's way of restructuring and rethink the thesis of buyer-driven role in the commodity chain.

6.1. Relocation decisions in different types of tie

Industrial relocation of production lines to South China becomes a major strategy for local garment manufacturers who want to maintain their competitive edge in the industry since the 1980's. Official statistics show that there is a rising trend of doing outward processing activities for the garment industry in the past few years in China. There is an increase of 159% in re-exports to China for outward processing trade in textiles materials and 107% in apparel articles and clothing accessories during 1989-1994. (See the table)

Of the thirteen garment factories that I have interviewed, nine have offshore production or relocated their production to China while four remain in Hong Kong. (See the table 1.1) The earliest relocation started in 1978 and the latest one is in 1997. Those factories with longer history in the industry usually have an earlier relocation or offshore production, while those factories which were set up in the mid eighties have relocation in the late eighties or the early nineties. The restructuring experiences of the local manufacturers show that irrespective of a close-tie or loose-tie pattern, the buyer is not a significant factor in relocation decision of the local manufacturers. Nor is the buyer important for shaping the production network in the commodity chain. The buyer can have influence only under very specific condition. The extent that the buyer is influential in shaping the manufacturers' relocation decision is very dynamic and complicated. I would firstly describe the interactions between local manufacturers and overseas buyers on the relocation decision in different ties.

6.1.1. Close-tie pattern with relocation

Of the close tie pattern, three types of reactions from buyers can be identified in the relocation process: resistant, disinterested and encouraging. They all have implications on the buyers' role in initiating production in a dependent economy like China or other developing countries. I find that the local manufacturers are conscious of avoiding control from any particular buyer. They enjoyed autonomy in organizing the production network in China and in Hong Kong, though they face different responses from the buyers on the relocation decision.

a. Resistant and negotiated pattern

This pattern is characterized by a resistant attitude of the overseas buyers related to manufacturers' relocation plan. Local manufacturers need to persuade the buyers to accept the reorganization of production resulting from the relocation. When the manufacturers decide to move their production to China, they have to seek approval from their buyers. However, the buyers do not participate actively in the relocation process. They only reveal their negative attitude towards the relocation plan. The relocation experiences of factory E and G illustrate this pattern.

Factory E moved the production line to Shenzhen in 1987. They further expanded two factories in Jiangsu and Beijing in 1993 and 1994 respectively. At present, almost ninety per cent of Factory's garment products are in these three plants. The plants in Jiangsu and Beijing produce silk blouses and trousers. The plant in Shenzhen focuses on ladies' executive wear, including suits, skirts and blouses.

During the mid eighties, Factory E offered different prices to its buyers, ranging from low-end to high-end orders. Buyers were either resistant or cautious about accepting its relocation plan. The buyers at the high-end orders did not allow their products to be made in China because they were not confident about the quality. However, low-end

buyers were less resistant about their relocation plan because they always complained about the price. Relocation implies a lower production cost for the manufacturer.

"Our buyers at the bottom level complained that our price is too expensive. At that time (mid eighties) many other factories in China could make low-end products. The buyers always complained. We've to think about this." (The general manager of Factory E)

However, buyers at the lower end do not give them any explicit signals that show any encouragement for its relocation. On the contrary, the manufacturer takes the initiative and gives the signals to the buyers, hoping that they can accept their relocation plan.

"Before we have the final decision on relocation, we have to estimate the number of buyers who allow us to make goods in China. If the orders are high-end, the buyers won't allow us to do so. They insist that the goods must be made in Hong Kong. Therefore, we haven't persuaded this type of buyer. Then, we would talk to the buyers at the lower price first. We gave them the signals, then we talked to those with lower quality requirement buyers. On the other hand, we need to find other new buyers who would accept the goods that are made in China."

A negotiated and persuasion process emerges in the relocation process. But on the other hand, Factory E's manufacturer is not sure whether orders are sufficient to support a factory in Shenzhen.

"We have an objective in mind... then we prepared to persuade customer A, customer B and customer C. We just try. On one hand, we move the production line and ask them simultaneously. We discussed with the buyers about the possibility of giving us orders to support the plant in China because we can't start our production if we don't get their approval. If the product is made in China, you must gain their acceptance. At that time they were not confident in China-made product. Then some buyers agreed and say "Alright, that's good, the price is attractive. Then they allowed us to put the orders to China's factory. Some customers could support us some thirty per cent of the capacity. We make a loss at the early stage of the relocation."

In the close-tie relationship, the management is very cautious about seeking the approval from the buyers upon their relocation decision. There emerges a negotiated and contested interaction between the buyers and the manufacturers. After years of production experiences in Shenzhen, the buyers gradually accept the garment made in China. When the manufacturer further expand two plants in North China, the buyers again do not play any active role in initiating the production there. The manager explains that they can easily access to silk fabrics in setting up a plant in Jiangsu.

"One of our main export items are silk blouses and trousers. Jiangsu is the origin of silk fabric. It's much more convenient for us if we have a plant there. Then we can export the goods to other countries directly from Jiangsu."

Besides, the manufacturer perceives that the rising trend of massive relocation of other factories exerts great pressure on them.

"Everybody goes to China. There is a trend of relocation to the south. You must follow this trend. If you don't go, then you can't survive. We have to relocate our production and do the product with lower quality requirement."

When the manufacturer thinks of the possibility of relocation in 1987, they were very cautious about their plan. The manager explains that they were initially not so confident in the policy of the Mainland government in the early days. But then when they faced skilled labour shortage in Hong Kong they planned to have relocation. At that time they made ladies' evening wear for the UK market. Labour-intensive process, like sewing "butterflies" or decoration on the wear, was carried out. They faced great problems of recruiting labour at that time. Besides, the relocation of other factories exerted pressure on them. They perceived that they might lose the competitiveness in the market. Following other manufacturers' action is a way to survive in facing the uncertainty about the business environment. There exists a kind of mimetic isomorphism in this case. I would discuss this point in details in the next section.

The experience of Factory G is quite similar to factory E. Factory G relocated the production line to Shenzhen in 1981, earlier than most other factories. The buyers' resistance to Factory G about the relocation plan was more obvious and stronger than that of Factory E. Its frequent buyers discouraged it from relocating its production line.

"Their answer is very negative. They told you that we can't have the relocation, otherwise I won't give us the orders. These are the European buyers and they don't like China. They think that China-made means Red China; The US buyers told us "don't go to China and don't put our orders to China. They are not confident in the quality of the goods and the stability of its policy. They worried whether the production efficiency could meet the deadline and shipment." The manager recalled such experiences when they have early relocation. (The manager of Factory G)

Factory G, as a veteran shirt producer in the industry, maintained very close and stable relationship with their buyers in the past decades. It is among the first batch of relocated plants to move the production lines to China in 1981. While the industry enjoyed prosperous growth during the early eighties, there were not many manufacturers choosing relocation. The manager of Factory G realized that going back to China could diversify market and expand the organization.

"The labour cost keeps uprising. Garment industry is a labor-intensive industry. It cannot be replaced by any machinery. Therefore keeping low wage is very important for us. It's a long-term project for us to invest in China."

The manager suggests that relocation during the early days is a great burden to the manufacturers because the buyers' response is negative and resistant. They have to persuade the buyers to accept their decision. Again, there emerges a negotiated process with the buyers under the close-tie pattern. The buyer is not as a pushing force for the manufacturer to relocate their production in the commodity chain. Instead, the manufacturer must take the initiative to persuade the buyers to accept their relocation during early eighties. The buyers do not influence on the relocation decision on the manufacturer of Factory G.

Factory G is also a licensee of a brand-name shirt called Manhattan and is responsible for its manufacturing, marketing and promotion in the East Asian market in the past decades. The brandname retailer leaves a freehand to the manufacturer and therefore he is free to organize the production base for the shirts. Therefore, the manufacturer produces its first order of the Manhattan shirts in Shenzhen's plant as to avoid conflicts with the existing buyers. The manufacturer successfully shows to the overseas buyers that the quality of the shirts is acceptable even when they are made in China. They manage to diversify their market to the non-quota countries like Japan and Austria in the mid eighties.

The overseas buyers gradually accept the quality and allowed the goods to be made in China.

To recapitulate the relocation Factory E and G, it is found that the experiences are different from what Gereffi's discussion of the buyers' significant role in affecting the relocation and production network in the commodity chain. On the contrary, it is the manufacturers who take the active role to persuade and encourage the buyers to accept the relocation plan and the reorganization of production network. There emerges a contested and negotiated interaction between the manufacturers and the buyers on the relocation plan. It is not necessarily just a coercive and power relationship between two parties as suggested by Gereffi.

b. Disinterested and detached

This pattern is characterized by the disinterested attitude of the buyers towards the manufacturers' relocation plan. Both parties are detached from each other and there is no persuasion process involved. The buyers do not give any signals to encourage or discourage the relocation plan. Rather, they just complain about the price. The manufacturers, on the other hand, intentionally avoid discussing the relocation decision with the buyers. I would describe the following experiences of several manufacturers.

Factory M is another pioneer in relocating the production lines to South China in the late seventies. The entrepreneur takes a very cautious approach in the relocation process. Being a parent factory, he financially supported his five small subcontractors in Hong Kong to move the production lines to Dongguan in 1979. The subcontractors specialized in templates-knitting process for the parent factory in the past ten years. Their plants were in the New Territories (such as Yuen Long, Tsuen Wan and Taipo) before their relocation. The manufacturer bought new machines to support them in Dongguan. The subcontractors continued to do the templates-knitting for the Factory M. Then he

deducted five percent from every order payment of the subcontractors received. Since the subcontractors are dependent on this parent factory, coercive isomorphism emerges in the relocation process. The manufacturer explains why he prefers the subcontractors to relocate in China during the late 1970's.

"It's not so certain at that time. It's better somebody acts as an explorer for us and build up the social network with the local officials there before we have our own plant there." (The managing director of Factory M)

It was not until in the late eighties that the manufacturer began to think that it was mature enough to build up social network and to establish their own production plants in South China. At present, Factory M has three production plants in South China. The manufacturer does not ask the buyers for approval in advance. He says that since he complies with the country of origin regulations and he does not need to inform the buyers.

"The buyers don't want to know too much about the manufacturer. Our relationship is based on the selling and purchasing of goods. It is based on the fact that they can assure us stable orders, we can earn money, provide goods with good quality for them. That is. If any part of this process fails, then our relationship will be interrupted."

Factory C has similar experiences when it relocated the production line to Dongguan in 1989, two years after starting up the business. Like other manufacturers, the owner of Factory C faced the problems of recruiting skilled labor in Hong Kong. Because of the presence of outward processing arrangement system, he decided to open a plant in Dongguan so as to capitalize on the abundant source of labor supply in South China

Again, the buyer is not a significant and enabling factor for the relocation decision. The buyers were not interested in the manufacturer's relocation plan although they maintained close tie with the manufacturers in the past years.

"No, no, the buyers don't care about that. What they are concerned about is whether they can buy the goods in Hong Kong. They don't care about the relocation, neither do they give any opinion about this. They only tell us that they would offer a price within their budget. They press down the price because other East Asian suppliers can make it at a lower price. If we want to get the orders, we have to accept the price. Otherwise, they would shift to other countries that can make the same goods for them." (The owner of Factory C)

Keen competition with other low-cost countries pushes the entrepreneur to look for their competitive edge. Although the buyer is disinterested in the relocation plan of the manufacturers, local manufacturers are forced to think of a solution when they constantly face the price signals from the buyers. It is the manufacturers who perceive the price signals and sort out their problems. The manufacturer of Factory C also refrained himself from informing the buyers about his relocation plan in Dongguan.

"They won't explicitly say whether they like you to make the goods in China. They just give us the price. Then we find our own means to complete the orders. They would like to source the goods in Hong Kong. Because they know there's a lot of problem in other countries. But they can't teach me what I should do. We find our own means of survival." (The owner of Factory C)

Factory B has similar experience. As a late-comer in the relocation process, the owner started to run a larger plant in Guangzhou in early 1997. The factory makes fashionable ladies' garment for the local, the East Asian and the European market. Given that the production scale is not large, about seven hundred pieces a month, the owner realizes that there will be no big difference in the production cost in Hong Kong and in China. Besides, because the orders are high-end, which requires high quality workmanship, the manufacturer is unwilling to move production to China before nineties. It was not until 1992 when she succeeded in getting into the European market that she consequently faced the problem of expanding the production capacity in Hong Kong. Only thirteen female workers were employed then and she faced great difficulties recruiting skilled labor. Before relocation, she subcontracted out some orders to other garment factories in Hong Kong. So, she decided to relocate the production line to Guangzhou. Again, the buyer did not play an active role in the relocation. The owner did not talk to her buyers about her relocation decision.

"I don't intentionally tell them that I have a plan to relocate our production line to China and then ask them for more orders. You know, I tell them that our factory will be relocated to China and then ask them to give me more orders, it seems that I have to beg for their orders. I don't like this. I have to let them feel that you (the buyer) are not the only customer in my clients' list. This is a way of playing the game in the business. I have to bear the consequences if I persuade or ask them to give me more orders for the relocation." (The owner of Factory B)

The manufacturer does not want to give the buyers an impression that she is dependent on any particular buyer. Therefore she intentionally avoids discussing the relocation plan with the buyers.

The owner took a very cautious approach in the initial stage. She only purchased five sewing machines and employed few female workers at her friend's factory in Guangzhou. She trained the workers by herself.

"Although they know the sewing skills, I've to brainwash them by giving my own idea of making high-fashion garment, which is near half-tailoring."

The owner spent three days a week in Guangzhou to train the workers. In the early 1997, she started a plant with eighty workers.

To briefly summarize the relocation experiences of Factory B, C, and M, we note that all of them keep a detached relationship with the buyers particularly on matters concerning their relocation plan. They try to maintain their autonomy and avoid being over-dependent on any particular buyer in the commodity chain.

c. Active participation and encouraging

It is observed that bulk buyers have encouraged the manufacturers to initiate production in the developing countries. For example, Nike encourages its affiliated factories to set up factories in the developing countries in the East Asian countries by actively participating in the relocation project. Many garment industry buyers also encourage local manufacturers to set up production bases in the developing countries. Whether the buyers can push the manufacturers to relocate their production depends on the extent to which the manufacturers are dependent on the buyers. According to some informants, occasionally there are cases that the big buyers of the US enjoy great bargaining power. They can really force some manufacturers to move their production to the developing countries and they need not bear great risks. This can be taken in form of

joint-venture, or the buyers assure a stable flow of orders to the manufacturers, participate in the production set-up and control the organization of the production flow.

The managing director of Factory F explains how the bulk buyer gives signals to him about setting up a plant in the developing countries:

"The buyer told me "you help me to set up factories in Vietnam or Cambodia, because we can produce mass volume with very low price there. I give you the orders and I won't need to go there."

Bulk buyers usually look for low-end, standardized and mass volume order, about ten thousand pieces or above. The garments are sold in the mass discount stores without brand-name or private labels. Therefore, mass production and economies of scale are being utilized in organizing the production.

"They can't source the goods even in China. The price is so low. Some bulk buyer like the K-Mark can't make it in China. Then they want to go to Vietnam, Cambodia or Malaysia.

Bulk buyers can secure stable supply of goods at low price if their overseas suppliers are willing to take the risks to set up plants in the developing countries. Therefore, it is quite common for them to encourage their Hong Kong's suppliers to relocate their production to Vietnam or Cambodia.

"The buyer from JC Penny (one of the US bulk buyers) asked us to open a factory in Vietnam previously. But I have to think about the advantages and consequences. In Hong Kong JC Penny gives me twenty dollars per piece. He gives me ten dollars only in Vietnam. Then why should I go there? I have to work for them for good... It's a way of taking advantage over me and making use of the cheap labor force there. I'm only responsible for the management but then I can't make great profit. I earn ten per cent out of the twenty dollars in Hong Kong; that is, I get a profit of two dollars. I earn only a dollar in Vietnam. It's stupid to do such a thing. That's why I won't go to Vietnam, I don't want to work for the US buyers for good." (The managing director of Factory F)

Although the buyer has encouraged the local manufacturer to develop overseas production, the manufacturer does not necessarily accept the suggestion. He is unwilling to be bound by the buyer when he clearly stated that he did not want to work for the buyer for good. Setting up factories in the developing countries with the buyer implies that both parties need to have long-term commitments to each other. Unless the garment producer is

doing low-end and mass volume, he lacks the incentive to follow the buyers' suggestion. In this case, the producer realizes that his market niche is on the brand-name high-end products like Calvin Klein, Armani and Esprit. It is not necessary for him to be bound by the low-end bulk buyer. In other words, he needs not depend on the bulk buyer. Therefore, the bulk buyer does not create any coercive pressure to the manufacturer in initiating the production network.

I suggest that even in the case of bulk buyers, if the relationship between both parties is not a dependent nature, the buyer cannot create any coercive force for the manufacturers in organizing their production. This contrasts with the argument that buyers have power relationship over manufacturers in shaping the production network in a buyer-driven governance structure as suggested by Gary Gereffi. We need to clearly specify under what conditions the argument still holds true. It holds true when the local manufacturer depends on the buyers and between them there exists a close-tie relationship. Then the buyer can be a powerful agent to shape the organization of production. But it is less likely for the buyer to influence the production network when the relationship between the two parties is symbiotic. Instead of a power relationship, a negotiated and contested pattern emerges between the buyer and the manufacturer.

Besides, some buyers do set up their own production plants in the developing countries instead of encouraging domestic manufacturers to do so. The Esprit Asia Holding Limited is an example. ESPRIT is a brand-name which was established by a San Francisco fashion company in 1968. In the early Seventies, Ying Lee Yuen (the chairman of the Esprit De Corp (Far East) Ltd) was their buyer and purchased goods for Esprit in Hong Kong. In the early Eighties when the Esprit International expanded the retail business in Asia by setting up the Esprit Asia Holding Limited, it was also responsible for the garment

production for ESPRIT. Two production plants were established in 1983, producing knitted and woven garments for retailing.

To support the production for its retailing, Esprit also depends on a group of subcontractors to supply ladies' wear, children's wear and men's wear, which shares about eighty percent of the supplies. Apart from this local production network, Esprit itself set up two production plants in Shenzhen and Dongguan in 1991 and 1992 respectively. They produce hundred thousand pieces per month, which occupy twenty per cent of the total sales. (Textiles and Clothing:1993:Vol.6) This case shows that it is not necessary for the buyer to encourage any production in China, it can integrate the garment production in the commodity chain and initiate the production in the dependent economy.

Another example is the development experience of Fang's Brother Knitting Limited. Mr. Fang Hung, a Shanghainese by origin, succeeded his father's textiles and garment business by starting the sweater production in the early Sixties. (HK Fashion History:1992:76-79) In the early Seventies, the group purchased the Toppy shop in Central district, a retail shop selling low-end products for the export markets. Then it succeeds in developing its own brand like Episode, Jessica and Excursion in the past decades. It also expands the retailing in the European and East Asian market in the UK, France and Japan.

Similar to ESPRIT, the group has a group of overseas subcontractors in Malaysia, Philippines, Mexico, Panama, Ireland, Dominica which support about thirty percent of the garment production. The other seventy percent of garment production is left to the control of the parent factory in Hong Kong, Thailand and China. Recognizing the increasing production cost in the territory, the group expanded the production base in Thailand and China. (Hong Kong Economic Daily:1996, Oct 10)

The examples of Esprit and Fang's Brother show that when the buyers are also engaging in production, they can take an active role in organizing their own production

bases. They can do that either through a group of overseas subcontractors in the developing countries or setting up their own production bases in China or in other dependent economies in the global commodity chain. In this manner, they possess the buyer-driven governance features in which the buyer becomes a major driving force in organizing the production network in the commodity chain.

I observe that Factory L has internationalized its production bases in the East Asian developing countries and in North China between 1978 to 1996. Before developing the retail business in the Nineties, the manufacturer started as a subcontractor to supply jeanswear for other garment factories in 1975. In 1978, the factory expanded the production bases in the Philippines to get the quota advantage in the third world countries. When China opened up its economy in the same year, the group started to work with compensation trade and outward processing activities in North China like Hubei and Hebei. They have built up very good relationship with the Chinese officials by doing this. The company profile shows that the group directors hold official titles in the political bodies of the Chinese government.¹

In the past twenty years, it has been very active in initiating the production bases in North China, by running joint-ventures with the local officials. The joint ventures are either garment production or dyeing and weaving of fabrics. The group sends staff to China and other developing countries to assist the associated companies to set up the production lines. The assistance includes purchasing the necessary machinery and equipment and ensuring that the factory set-up is up to the group's standard. During the early stage of setup, the staff was stationed at the site to oversee the production so as to keep close control on the quality and the cost of production. Senior managers are appointed by the Board to be

¹ The company profile shows that the directors have officials' title in the Chinese political consultative body or as major members of some China's business association. Some senior management staff is also a member of the Beijing Committee of Political Consultative Conference of the PRC.

responsible for the day-to-day operations of the production bases in PRC or in other developing countries. At present, the group owns garment production plant in Huizhou with an establishment size of over one thousand workers. At the same time, the group has shares participation in seven other apparel production plants and four fabrics factories in Guangdong, Hubei, Changiin, Beijing, etc.

Apart from the production lines in China, the offshore production bases in Indonesia, Malaysia, Philippines, Cambodia and Bangladesh also support the production capacity for the group. The group itself becomes a buyer by taking over the retail apparel business in Australia in 1994. It uses the buyer's brandname to sell casual wear and to enter the retail market in North China. This is an opportunity for the growth of the organization. The managing director of Factory L realizes that good connection with the Chinese officials is an advantage to the group.

"We've eighteen years of experience in garment production there and established close connections and goodwill there. Our strategy is to start the retail business where we've established advantages. That's why we choose North China."

At present, the group runs 203 retail chain shops in North China. It wants to expand the number to 330 by 1998. In operating the franchises and retail chains, a computer-based information and inventory control system has been installed in each outlet. The system has point of sale data recording the location of sale product category, size and colour in details. This enables the group to get the latest information about the retailing and decide the production accordingly. The production bases in the developing countries as well as in China provide products of about 41 per cent of the apparel retail business.

To explain why the group is active to have forward and backward integration in the commodity chain, the managing director suggests that the "cost" minimizing is the group's major concern.

"Let's say an overseas buyer or the department chains want to find the overseas suppliers to supply goods for them, he needs to find an agent in Hong Kong to find a supplier for him. The manufacturer gets the orders

and put the orders to be made in China. There involves cost in every stage. That's costly for us. Direct order, direct production and direct sale. That's more competitive than others, we can save at least twenty percent of the cost by the integration."

From the experience of Factory L or other OBM garment firms stated above, several characteristics can be discerned. First, the manufacturer becomes a buyer by developing his own brand-name in the commodity chain. Second, the manufacturer integrates the retailing, the export and the manufacturing activities to minimize the cost and utilize the flexibility. It appears that this kind of vertically-integrated value-added activities among the large-scale apparel groups in the buyer-driven commodity chain are somewhat similar to that of the features of producer-driven commodity chain. As stated in Chapter Two, Gereffi highlights the role of the large-scale multi-national group in coordinating the production and retailing activities with forward and backward linkages. The headquarters does the high-value added activities like research and design for product innovation. Similarly, the manufacturers possess the producer-governance features when the brand-name garment group succeeds in integrating the forward and backward link in the commodity chain (like the case of Factory L, Esprit, Giodano, Theme or the Wing Tai, etc). The value-added activities remain in the hand of the headquarters and labour-intensive production process is shifted to the overseas production network in the commodity chain.

Therefore, regarding the argument of the buyer-driven role in shaping the production network in the commodity chain, there are several conditions under which this thesis holds true. First when the manufacturer depends on the buyers, then it is likely that buyer can exert coercive pressure on the manufacturers to relocate their production. Secondly, when the buyer becomes a manufacturer and develops its own production base, the buyer itself takes an active role in integrating retailing and manufacturing in the commodity chain. (like the case of ESPRIT) Thirdly, when the manufacturer develops the

retail business and becomes a buyer himself, he could take a very active role in shaping the global production network in the commodity chain.

6.1.2. Loose-tie with relocation - disinterested response from buyers

In the loose-tie pattern, I would suggest that buyer is not a significant factor for enabling the relocation of local manufacturers in the commodity chain. The buyer is not interested in the relocation plan of the manufacturers. By the same token, local manufacturers do not discuss their relocation plan with their buyers. They keep a detached manner with each other because their relationship is very "instrumental". This instrumentality is anchored in their daily operation, as stated in chapter five. It leaves the manufactures to perceive the market signals in the market. Domestic manufacturers emphasized the importance of "survival" in their situation. They have a strong sense of uncertainty of whether they can secure stable orders from the buyers and compete with others in the market. Facing such uncertainty, the emergence of "mimetic isomorphism" is very dominant among the manufacturers in the loose-tie type. In this section, I would examine how the manufacturers make the relocation decision and interact with the buyers in the whole process.

Factory F has produced high-end fashion garment for several brand-named buyers in the US and the European markets. The producer says that he faced great difficulties in recruiting skilled labor and so he moved the production to Shenzhen in 1989. In this process, the buyers did not say much about the relocation.

"Buyers didn't discuss with us about the relocation. If they told us to relocate the production line to China, it seems that it would victimize themselves. If he told you to go to China, he doesn't know how to be responsible for his boss. He is responsible to source goods with Made-in-HK label. If he can't offer the price, there is no way. He has to survive. But he can't talk about the relocation. So, the smoothest way for them is that he would talk to us, 'well, guy, I don't care where you make the goods. The thing is that you have to meet my budget price and then I'll buy the goods from you. They won't encourage us whether to produce the products.'" (The managing director of Factory F)

The managing director suggests that buyers were not interested in participating or even knowing anything about his relocation. In the loose-tie pattern, instrumental ethos dominates the relationship. Neither party has any interest in the cooperation in the relocation.

"There's no such story. They don't want to have any participation in the relocation. They come to us to buy goods. I supply the garment for them. That's it. It's our problem. (about the relocation) They don't want to know our problem. It's so pragmatic. We make friends (with the buyers) for some twenty years, but the point is that we're in opposing position. Buyers have their own position. And so do I. There's no such friendship in a pragmatic world.... Eighty per cent of them are money-seekers. This is a material world. It doesn't matter how long we have been working with them. We don't expect to get their cooperation."

Therefore, the manufacturer did not discuss with his buyers about his relocation plan, nor did he persuade the buyers to give him more orders to support the Mainland production. He thought that this would jeopardize his bargaining power if he did so.

"I won't tell them about the relocation. It's useless. We beg for the orders and they would further press down the price. They would only think that the production cost in China is lower and offer us a lower quotation price. It's just like talking to a "tiger" (吃人虎) if we told them about the relocation. I won't do this. This is a world in which one swallows another one, we have to protect ourselves."

In the loose-tie relationship, as stated in Chapter Four, the market principle governs the relationship between both parties. It reflects how the jungle law of the market works in the product world when the manufacturer views his buyers as "money-seeker". The manufacturer also perceives that the other party would act in an opportunistic manner and maximize their interests with greatest possible gain. This instrumental relationship between buyer and local manufacturer means that it is difficult for both parties to have long-term commitment. It is not possible for buyers to take any active role in relocation in this light.

Again, Factory D has the similar situation. The buyers only complain that the price is too high. This signal, to a certain extent, exerts pressure to the manufacturer about the relocation problem. The manager of Factory D, who moved the production line to Dongguan in 1992, explains:

"The buyer won't tell us what we should do or ask you to open a plant in China. They just complain that the price is too high and said they will find other suppliers. They won't guarantee stable flow of orders. Even if they give us orders this year, they won't promise to give us next year. It's not a long-term business relationship that we can discuss about the relocation plan."

Owner of Factory K, who relocated the plant to China in 1992, shares similar experience.

"They don't encourage us to relocate our production. They just offer the price and leave it to us to handle. If you can do it with his required price, they won't care where you make the goods. If we get the orders, we make our own way."

It is obvious that because orders are not stable, it is difficult for the local manufacturers to build up strong tie with the buyers. But the manufacturers need to compete for the orders in the market and the buyers' complaint creates an indirect pressure on the manufacturers' relocation decision.

Suffice it to say that the dominance of the instrumental relationship between the two parties leads to buyers' disinterested attitude towards the manufacturers' relocation plan in the loose-tie pattern. In this case, there is no evidence to support the view that buyers have played a critical role in affecting the relocation strategy of local manufacturers and shaping the production network in the commodity chain.

Concluding remarks on close-tie and loose-tie pattern in relocation

To recapitulate the overall picture of the buyer-driven thesis in shaping the global production network in the commodity chain, I would argue that the relationship between the buyers and the manufacturers in different ties is complicated and dynamic. Under the close-tie pattern, a buyer is not necessarily active and critical in the relocation decision of the manufacturers. The buyer-driven thesis holds only when the local manufacturers have to depend on the buyers. In this case, it is more likely that the buyer is able to exert coercive pressure on the manufacturers' relocation plan. This, in turn, affects the organization of the global production network in the commodity chain. Or else when the buyer simultaneously becomes a manufacturer, he becomes more active in initiating production in the dependent economy. The fieldwork also shows that when local

manufacturers are not dependent on the buyer, a contested and negotiating process emerges between both parties if the buyers show resistant attitude towards the relocation project. Local manufacturers have to persuade the buyers to accept the relocation. Besides, the manufacturers can diversify its order source during the relocation as to avoid being controlled by the buyers. In this case, buyers' resources are not critical to the manufacturers and the latter can enjoy more discretion power on the relocation decision. However, some buyers are disinterested in the manufacturers' relocation plan and do not have any active role in shaping the relocation decision of their suppliers.

In the loose-tie pattern, the dominance of the instrumental relationship weakens the role of buyers in affecting the relocation decision of the manufacturers. It is the manufacturers who take the relocation decision. They keep a detached relationship with their buyers.

Therefore, the buyer-driven thesis holds under several conditions as mentioned above. However, it fails to explain what kinds of force that affect the relocation plan of the local manufacturers and how they shape the organization of production network. Gereffi's buyer-driven GCCs discussion shows that there is an institutional framework that identifies how local, national and international conditions and policies shape the globalization process at each stage of the chain. (Gereffi:1994) We need to have a more in-depth examination on the interaction between the institutional factors and the local manufacturers and see how it shapes the relocation strategy of the manufacturers.

The following table summarizes different types of interfirm linkages with the buyers that affect the relocation decision of local manufacturers.

Close-tie with relocation/ Characteristics	Buyers' response	Manufacturers' action	Cases (nine cases with relocation)
Pioneer	Resistant	Negotiated and contested	Factory E and G
Mimetic isomorphism in	Disinterested	Detached	Factory B, C, M

case C coercive isomorphism in case M			
Pioneer, has governance features producer-driven GCCs	Active participation aggressive	acceptance	Factory L, Espirit, Theme, Marks & Spencer
Loose-tie with relocation Mimetic isomorphism	Disinterested	Detached	Factory K, F, D

Table 6.1: Characteristics in relocation and buyers' response in close-tie and loose-tie

6.2. Intra-organizational comparison on relocation - triggering of relocation

I would try to explain the forces that trigger the relocation decision of the local manufacturers in this section. Firstly, I would try to conceptualize the relocation decision on a time horizon by using 1987 as the dividing line. Those manufacturers who relocated their production before 1987 are defined as "pioneers" and those after 1987 are as "late-comers". The reason for my using a time horizon conceptualization is that the institutional and business environment before and after 1987 is quite different. The garment industry reached the peak in 1987 in terms of the number of establishments, the quantity of exports and the gross output performance. (See the table 3.3. in Chapter Three) Secondly, there are some institutional changes like the government's role, quota restrictions of the industry and condition of the labour market, all of which are important for shaping the restructuring pattern of the garment industry.

It is also interesting to note that reasons for the relocation of the pioneers and the late-comers vary. For instance, the manufacturers in the old days are not necessarily facing rising production cost or severe labour shortage as compared to the manufacturers today. I would examine how the local institutional forces interact with the local manufacturers in the relocation process among the pioneers and the late-comers. This leads to unravelling the forces that trigger the relocation.

6.2.1. Pioneers in relocation - search for organizational growth

I observe that there are three garment factories that have early relocation or offshore production bases in China or in other East Asian developing countries in the late Seventies to early Eighties. (Factory G, M and L) They have long history in garment production and rich experience in contacting overseas buyers in Hong Kong since the late Fifties to the early Seventies.

Factory G planned to open a factory in Shenzhen during 1981. But the manager recognized that it would induce loss at that time when the economy in China was still very backward and the infrastructure of electricity, water, lighting and road were poor. Besides, "back door" activities were common at that time. Therefore it was not attractive for the garment manufacturers to relocate their production in China in the early Eighties. They were not certain if they could get sufficient orders to support the production in China. Besides, their buyers did not support their relocation plan. However, the manufacturer insisted on relocating their factory to China.

"It was a trial and error at that time. We held a belief that in the long run we can produce good quality goods and get orders from the overseas buyers. We couldn't have an accurate estimation on the source of orders. If I said yes, we have accurate estimation, then I must be cheating you. But what was certain is that we have this direction. (expansion in China) We had to overcome a lot of problems of having a factory in China at that time. We made a loss in the early time. I mean we spent a lot of time and effort running the factory in Shenzhen. The cost was the same as that in Hong Kong. But it's a long-term project, a kind of managerial decision." (The manager of Factory G)

How can we explain the aggressiveness of the manufacturer? I suggest that we need to go back to the organizational history of the garment group. As a veteran shirt producer since 1957, the group diversified its business in apparel and leather trading with over 3,000 employees worldwide. The establishment size for shirt production was over one thousand workers in the Kwun Tong's production site in the late Seventies. Meanwhile, the group diversified its business to property development when the property market was booming in the early Eighties. The group rebuilt a new commercial building to replace the thirty-year-old industrial building in Kwun Tong. Then, the garment production

moved to a nearby factory building in Kwun Tong but the manufacturing workforce gradually fell to three hundred workers only. At present, they have an internationalized wholesale and retail network of branded apparels in Germany, Singapore and the US markets.² In this respect, the organizational development of Factory G shows that the management is ambitious to search for capital accumulation by diversifying the business.

Regarding garment production, they diversify the product lines with different price ranges and with mass volume production of both low-end and high-end orders. The manager explains that "there's nothing special in sewing a shirt. The garment is divided into different parts and everybody can do this." The garment production is locked into a labour-intensive manufacturing, therefore the abundant cheap labour supply in the dependent economy enables the manufacturer to organize production for the low-end orders. The production bases in China support the product for mass volume, low ends orders while that in Hong Kong remains to be a centre for medium to high-end, small-batch production or for urgent orders.

Besides, labour shortages as well as the escalating product cost are quite problematic to the garment industry in the late Seventies. The local manufacturers who have early relocation explains that they move the production to South China because they face severe labour shortage. The manager explained why they prefer to utilize the cheap labour in South China.

"The main consideration is that the labour cost keeps uprising. Garment industry is a labour-intensive industry of which the labour cannot be replaced by machinery. Therefore, how to lower down our production cost is the most important thing."

Another manager encouraged his subcontractors to move production lines to South China in 1979. The managing director of Factory M recalled the difficulty of recruiting workers for the factory.

² The company profile of Factory G shows that they have retail and wholesale business in Singapore,

"At that time, I dared not to receive more orders from the buyers. I couldn't find sufficient workers to support the production."

The above quotations show that the local manufacturers always complain about labour shortage. The labour cost occupies about 22 per cent of the total production cost in the early Eighties whereas the materials, supplies and other industrial services occupy 67 per cent (HK Industry Department:1995:54) . It is more convenient for the local manufacturers to control the labour cost than other costs such as the cost of raw materials. Apart from the imported workers, the availability of abundant cheap labour supply in South China is a great attraction for local manufacturers.

The presence of the quota system is also conducive to the relocation. It is because the quota system imposes a quantity constraint on Hong Kong's garment industry if the local manufacturers want to expand the exports to the quota countries. Local manufacturers can grasp the opportunity to get more orders from the quota countries by initiating production in the developing countries which are adjacent to the quota countries. For Factory G, the manufacturer expanded the production lines in Panama and Mauritius during the early Eighties. Panama is quota-free for the US while Mauritius is quota-free for EEC market. The quota free privilege is an opportunity for the manufacturers for further expansion.

This is similar to the situation of Factory L which produced jeanswear in mass production, low-end and simple-style during the early Seventies. Their frequent buyers were the US bulk buyers like the GAP and the Limited. The quota price for jeanswear soared sharply and the group suffered a big loss in purchasing the quotas in 1977.

"The quota price was even higher than the quotation price at that time. When the jeans-skirt was fashionable, the quota price for this catalogue is spiraling. The quota price for a dozen was over a thousand, which means over a hundred dollar for a jeans-skirt. But the buyer did not offer a higher quotation price...

The quota system makes us feel that we need to depend on others. That hinders our development. That's why we decided to expand our production lines to the overseas." (The managing director of Factory L)

Regarding the garment industry's development in the East Asian developing countries, like the Philippines and Indonesia, there is no quantity constraint on the export volume of any particular manufacturers during the Seventies. In the Philippines, the government encouraged foreign investment by offering tax exemptions or used the Export Processing Zones (EPZs) to attract the "quota refugees" in the Four Dragons. (Pineda Ofreneo:1994:163) Therefore, the quota privilege of the developing countries, to a certain extent, is attractive to the aggressive manufacturers who want to start overseas production for further expansion. The production bases enable the garment firms to have more flexibility in organizing the production.

6.2.2. Late-comers in relocation - emergence of mimetic isomorphism

Concerning those who moved the production lines to the Mainland or other developing countries after 1987, I would explain why I see them as late-comers in relocation. In fact, it is only a relative concept for distinguishing those manufacturers who locate their production recently from those did so earlier. The business ecology after the mid Eighties is markedly different from that before. For instance, garment manufacturers' perception of the condition in the labor market and the external challenges, to a certain extent, is quite different from the pioneers. I observe that the ethos of "survival" in the mentality of the manufacturers is very dominant factor for their considering the relocation. A process of "mimetic isomorphism" on relocation emerges in due course. In other words, it seems that relocation has become the "only-option" of the local manufacturers for survival. "Mimetic isomorphism" is used to describe the process of "homogenization" of responses among the organizations when they face the environment conditions. As suggested by Powell and DiMaggio "modeling is a response to uncertainty"(Hawley:1968,

Powell and DiMaggio:1994:66). In the context of relocation, this sense of uncertainty is anchored in two aspects. The first is the interaction between the manufacturers and the buyers. The second is the subjective perception towards the institutional context by the manufacturers.

Regarding the interaction between the buyers and the manufacturers, I observe that whether the tie between the overseas buyers is close-tie or loose-tie, it is still far from the "strong network form of mutual cooperation or relational subcontracting". The relationship between the buyers and the manufacturers is built on an exchange basis. Close-tie relationship between the buyers and the manufacturers in Hong Kong means both parties have shared marketing information and the buyers guarantee stable orders for the manufacturers. The transfer of technical or firm-specific asset information on product development from the buyers to the manufacturers takes place occasionally.

Let us turn to examine some of the relocation experiences of the manufacturers in the mimetic isomorphism. As mentioned above, in either close-tie or loose-tie pattern, buyers are disinterested in the relocation plan of the domestic manufacturers. Manufacturers perceive the environment and decide to relocate as they have a strong shared belief that "relocation" is the only means of survival. This is very dominant phenomenon among the manufacturers that I have interviewed. I argue that this shared common belief is anchored in their interaction with the buyers and with other manufacturers.

"We're the late comers in China. At first we're not familiar with the Chinese government policy and hesitant to go to China. But now everybody goes to China. There is a trend of relocating the production lines to the South China. We have to follow this trend. If we don't go, then we can't survive." (The general manager of Factory E)

The general manager of Factory D said:

"When there is limited chance to survive here, we must find the way out. Production cost in Hong Kong is ten dollars for a dozen. But in China, it is only six dollars. The buyers only tell us "I won't offer you a higher price. I will offer a lower one." So we have to think about this.... We're lagging behind as compared to other factories. We're not sensitive enough.. well, it's a rising trend that every garment factory has relocated their

production lines to China. You must do that. Now the operation cost gets higher. If you want to survive, you have to control the cost."

Another manufacturer (Factory C) emphasizes that "survival" is the force that motivates him to have relocation. He relocated the production to the PRC in 1989, with the following explanation:

"Survival, the core issue is the price. We have labor shortage. We can't find workers and then the price for our goods becomes lower and lower. Under such environment, we need to find alternative means of survival. How can I get the orders?...They won't explicitly tell us that they like the goods to be made in China. They give the price to us. Then we find our own means of "survival" to compete the orders. They would like to place the orders in Hong Kong. They can't teach us what we should do. You find your own means of survival. No matter of what way, provided that the means is legal and fit their price requirement."

The owner stresses the word "survival" several times during the interview. Factory C is not the only case. Other manufacturers do the same. The collective perception of the threat to "survival" creates a very strong sense of uncertainty among the manufacturers that I have interviewed.

As Powell and DiMaggio argue, uncertainty is a powerful force that creates imitation. When the environment creates symbolic uncertainty, it is more likely for the organizations to model themselves on other organizations. (Dimaggio and Powell:1991:69) Modeling serves as a convenient source of practices that the borrowing organization may use. Local manufacturers perceive that it is more difficult to compete orders with other NICs countries in the past ten years. The fieldwork shows that buyers' constant complaint about the price during the Eighties creates a "symbolic uncertainty" to the local manufacturers. This uncertainty is perceived to be a threat to the factories' survival. On the other hand, the manufacturers perceived relocation to South China is a "take-it-for-granted" strategy, as a "convenient source of practices" because other garment manufacturers do the same. Factory K moved the production to Dongguan in 1992. Having a small factory in the industry, he perceived that he has to model on others so that he can get the orders.

"The buyers did not encourage us to have any relocation. But I want to compete with other factories, then I go there. Other competitors do relocate their production lines. I have to follow them (Jian Xia Feng² 简 Xia Feng). Everybody goes there, and we follow. If we don't go, how can we manage to survive? Everybody goes, everybody goes. There's no room for Hongkong's industry." (The owner of FactoryK)

Besides, organizations tend to model themselves after the similar organizations which are perceived to be successful in their field. The above case shows that the manufacturer perceived "following others" as a way to secure his survival, especially when he did not find any other alternative. The loose-tie buyer would not tell him what to do or develop any substantial cooperative in product design or development. The manufacturers had to find their own way. Following others' footsteps in relocation was seen as a way out, although it did not guarantee success. However, the manufacturers decided to move the production to China. They were cautious about the plan. They worked with the outward processing factories in the Mainland, which were run either by the local Chinese or the Hong Kong people in order to get acquaintance of the local officials before their relocation to South China.

The government keeps an arms-length approach towards the industry and is not very helpful. The outward processing arrangement(OPA) was introduced during the Eighties. It allows garment products to be partly processed in China under the origin rules. This measure is also conducive to shift the labour-intensive process to the Mainland China.

Therefore, this creates a momentum of strong force for local manufacturers to have relocation. On the one hand, the lack of government support in the industry implies that the local manufacturers have to take their own means for survival in the industry. On the other hand, the perceiving the environment as "unfavourable" such as the labour shortage, rising production cost and increasing protectionism, creates a strong sense of uncertainty to the manufacturers. Successful garment firms are either doing their own brandname or having their production bases in China in the early days. However, it is not easy for most small and the medium garment firms to take the OBM production strategy as this strategy

requires huge capital investment and organizational resources. Therefore, "relocation" becomes a legitimate practice when the garment producers perceive that it can enhance their competitive edge in Hong Kong.

6.3. Factories without relocation

Four factories have not chosen relocation as their restructuring strategy. Rather, they retain the production bases in Hong Kong and utilize the flexibility in the production network in South China. (Factory H, I, J and K) Besides, a second-tier producer (factory A) doing the capacity or specialized subcontracting orders was interviewed. In this section, I would examine why domestic manufacturers choose this strategy, which I will describe as "an industrial flexibility", as distinguished from the relocation as stated above. Apart from this, the experience of the second-tier producer will also be examined.

6.3.1. Support of the subcontracting network in South China

The common characteristic of those factories without relocation is that they are very small in scale. Their establishment size is less than twenty people. I would argue cautiously that establishment size affects the restructuring strategy of the garment manufacturers. Although my fieldwork observation shows that some small-scale firms have chosen relocation as their restructuring strategy, I would like to highlight two points on this issue. The first is the subjective perception of the garment manufacturer. The second one is the presence of the production network in South that is favourable to the local manufacturers to retain the production base in Hong Kong. Hopefully it would help to throw light on the reasons why some manufacturers do not choose relocation as their restructuring strategy but still manage to survive in the industry.

First, regarding to the manufacturers' subjective perception about the business environment, they are conscious to refrain from location. It is interesting to note that their perception is resemble somewhat that of those manufacturers who relocated. For instance,

they also faced skilled labor shortage, rising production cost, and having difficulty to get orders in the market. Some manufacturers have previous relocation experience in South China and realize that there are inadequate protection for the Hong Kong businesses in China(Factory I). Some factories refrain from relocation because of lack of organizational resources. (like the case of Factory A, J & K)

Second, the subcontracting network in South China can enhance the competitive edge of the local manufacturers. This production network comes from the subcontractors in Hong Kong, or from the newly built up in China. The social capital of the manufacturers acts as a mechanism mediating between the overseas buyers and the subcontractors in the buyer-driven commodity chain. In this way, Hong Kong's garment manufacturers not only act as a manufacturer but also as traders in the commodity chain. There also emerges a process of triangular manufacturing in their cases. I suggest that the production network in South China provides a strong backup for the local manufacturers. The following experiences of several factories illustrate the above points.

Factory H is a veteran garment factory which manufactured the ladies' fashion wear for the European buyers. The owner started in garment production and trading business in 1968. Therefore, they worked with the Chinese officials for a long time even before the economic reform in China. They cooperated with them initially in Shunde with a compensation trade agreement in the late 1970's. Compensation trade is an agreement between the officials and the manufacturers with which the Chinese officials provide the factory site and workers while the Hong Kong manufacturers provided the machinery. The Shunde's factory constantly supplied garments to Factory H on a contract basis. Payment was deducted by the Hong Kong's manufacturers as the installments for the machinery. The compensation trade agreement is one of the very popular forms of cooperation between the Chinese officials and the Hong Kong businessmen at the initial stage of China's

economic reform. The owner can exert control on the quality of the product and the production cost by using the subcontracting network in Shunde.

Besides, the social capital of the manufacturer enables her to have cooperation trade with China at that time. Mrs Leung, the owner of Factory H, recalled their experience.

"My husband was familiar with the Chinese officials. He had trading business with them before the open door policy. So, he already knew some of the officials well. They encouraged us to do business in Shunde. We're the third entrepreneur who started business in the countryside."

She mentions that when she had compensation trade with the Chinese officials in the early days, she did not think about relocation as other manufacturers do today. She intended to depend on the production network in Shunde so as to enable them to do more business with foreign buyers.

The terms of the compensation trade expired several years later. The manufacturer started the outward processing arrangements with the Chinese officials. This was another popular form of cooperation between the Chinese and the Hong Kong manufacturers in the 1980's. Local manufacturers export raw materials to the Chinese subcontractors for processing. They signed the contract with the Chinese subcontractors and sent finished goods back to Hong Kong for re-exports.

To ensure the product quality, management keeps close control over the production in subcontractors' factories in China. A production manager has to be stationed in Shunde for four to five days a week and coordinate the production among six contractors. She explained:

"We send the manager to organize the production activities of different subcontractors. He helps them to solve the technical problem arisen from the production.... the subcontractors are responsible for managing the workers. We deal with skills, techniques and quality control for the production."

At present, the factory depends on a network of six contractors in South China that supports near ninety percent of the production capacity of the factory. There is a spatial division of labor between those in Hong Kong and in Shunde. In Hong Kong, the

production site remains a base for technical support for the subcontractors in China. For instance, sample-making, materials sourcing, merchandising and other trading-related activities are retained in Hong Kong. In cases when the quota price for any particular garment category is too high or when the origin rules applies, the orders are placed to Hong Kong's production base or to other subcontractors in Hong Kong. Factory H not only acts as a manufacturer but also acts as a trader in the commodity chain during the process. The process of triangular manufacturing as suggested by Gereffi emerges. The manufacturer can manage to survive and enjoy a high degree of industrial flexibility through this production network in South China.

Factory I has the similar experience. The owner of this factory prefers to make use of the flexible production network in South China rather than having his own plant.

Before the owner took over his ex-employer's factory in 1996, he had been working at a plant in Dongguan with the workforce of three hundred workers. But he gave up that factory and concentrated on the production in Hong Kong. He realized that he has to spend a lot of time and effort controlling quality of the goods and monitoring workers in the Dongguan's production plant. Besides, the previous experience of working in China made him feel risky and insecure in having production lines in China.

"In China they emphasize the "guanxi" (关系), and "Renshi". If I want to buy quotas in China, then we have to depend on the state-run company. There's no market price for the quotas, just depends on whether we have the relationship. Those guys who are in power can control the quota allocation. If we don't have this guanxi, the price is much higher. " Mr. Tang complained of the difficulties in dealing the officials in China.

He stated that some high-ranked officials got a faked seal chop, produced fake documents and sold them to the businessmen. There were several occasions when his goods were held by the Customs officials even though he had the necessary documents. This bitter experience makes him hesitate to have production in China.

Current research shows that when the officials can control the procedure and resources, giving personal gifts to the officials in doing business is very common in China. (Smart and Smart:1992) Some manufacturers maintained that they have to give "red packets" or gifts to the Chinese officials of various departments (like the Chinese Customs, and the local government) every year in order to build up a good "guanxi" with the officials. The owner of Factory I is not confident in running his own factory in the Mainland.

Meanwhile, the production network in Dongguan can support the factory in competing orders with other firms in the market. Before starting the business, the owner has been working with three subcontractors for six to seven years when he was employed as a production manager. The subcontractors in Dongguan used to have production in Hong Kong before their relocation in the mid Eighties. But then they wind up the factories in Hong Kong and concentrate their efforts on the Mainland. The establishment size is medium size, with a hundred to five hundred workers. The production capacity for each subcontractor is about 30,000 to 50,000 pieces per month. In other words, the total monthly production capacity can reach a maximum of over a hundred thousand pieces. This increases his flexibility in organizing the production.

"Sometimes the buyer gives us an order of over ten thousands, but we don't have the shipment. It's impossible to make it in Hong Kong within thirty days. Then the buyer will understand why we put the orders to China....or if they have a large volume order which is beyond my production capacity here, ask my friends in China to do it for me. It's so flexible!" (Mr Tang, the owner of Factory I)

In this manner, the manufacturer of Factory I also acts as a trader mediating the overseas buyers and the producers in China in the global commodity chain. Having built up close tie with three frequent buyers in Germany for the past years, his buyers also depend on the owner to source other garment products in China's production network. The goods include gloves, jeanswear, children's wear and ladies' wear.

"Sometimes the buyer asks me whether I can find other supplier to make the gloves or other types of garment products. Then I asked my friend to receive the orders, and I became the exporter. That's why you can see that we have two brands - one is trading, the other is manufacturing."

Besides, the manufacturer can make use of the flexibility of quota in China. No quota is needed for some categories of garment product if they are made in China. The orders are given to the subcontractors in Dongguan in this case. The owner explained:

"We don't need quota for category 74 (ladies' woven coat) in China for exporting to the EEC market. But we need that if they are made in Hong Kong, then I will put the orders to China's subcontractors. Or the cat. 68 orders, (children's wear), of which the quota price in China is very cheap, only several cents per kilo, are also put to China. That depends on the quota price and our production capacity."

Again, Factory J, which does not relocate the production, has shared the similar experience of the above two factories. The manager explains that they do not choose relocation as their restructuring strategy because they think it is too risky to do so. They are afraid that they cannot get sufficient orders to support the capacity in China. Their order is only several hundreds to a few thousands pieces per order. The manager realized that the production cost in Hong Kong and in China is more or less the same.

"Transport cost for the Sino-HK is quite high now. Even we open a production line to do the outward processing arrangement, the cost is similar to that in Hong Kong. Unless you are doing the "submarine goods"³ (The manager of Factory J)

Being a small factory, Factory J lacks the organizational resources such as the working capital for relocation. The owner was a machinist before she started the business. She invited her sister to join the business. The setup capital was raised by the familial means. Having entered into the industry for over ten years, they have only maintained quite loose tie with an European buyer who purchases goods from Factory J twice per year. Apart from purchasing and selling the goods, the buyer is disinterested in the development

³ Under the country of origin rule (c/o) of the quota restrictions, part of the production process is allowed to do outside the Hong Kong territory through the outward processing arrangement (OPA). It is defined as the major transformation of the garment product in which assembling, label sewing must be done in Hong Kong. Then, the Hong Kong manufacturers need to apply the OPA from the Hong Kong Industry Department before doing the outward processing activities in China. However, some manufacturers make use of the loopholes of the OPA by finishing the garment in China's plant, and then re-exported to HK to change the country origin label. This is illegal. These kind of goods are called "submarine goods".

plan of the factory. When there is a massive relocation of factories to China in the past years, the buyer did not say anything about relocation.

"He doesn't care about this. (relocation) What he is concerned about is whether the products are made in Hong Kong. He doesn't care how we manage to do it. But the label must be made in Hong Kong and we must use Hong Kong's quota. He doesn't care about where we make the goods, or he doesn't want to know about it. Quality is the most important thing. If we're brave enough, then we can do the 'submarine goods', he doesn't care and won't inspect this." (The manager of Factory J)

Like other cases, the production network in South China helps to maintain the factory's survival. At present, the subcontracting network consists of five garment factories in South China, including two in Huang Yuen (黃源), three in Pun Yue (pun yue) and one in Zhong San (zhong san). These five factories are owned by the local Chinese manufacturers. The establishment size ranges from three hundred to five hundred workers. This network was established by the manager in his previous employment. He had to work with the Chinese subcontractors in South China since 1982. This kind of social capital of the manager facilitates the competitive edge of factory J. Since then, when the manager competes for the orders from the sourcing agent, he also considers the production capacity of these five subcontractors in China and offers different price options.

"I give them several options through my agents when we get order - made-in-hong-kong, made-in-HK but with the OPA, and made-in-China option. That depends on which option is more profitable and more acceptable to our clients. If made-in-China option is chosen, then I call my friends there (China) to finish the orders. In this process, the materials are sent to the contractors and using the quota in China." (The manager of Factory J)

Then Factory J changes its role from a manufacturer to a middleman mediating orders for the second-tier producers and the sourcing agent in the global commodity. Perhaps it is worthwhile to explain why sourcing agents have to depend on the first-tier producer to get the order match instead of directly contacting the second-tier producers in the PRC. I suggest that the social capital of the manager is an invaluable asset of the small factory which cannot be easily replaced by the sourcing agent. The manager could keep close relationship with the subcontractors in South China in the past years. His relationship with the subcontractors has been established in his previous employment.

"I phone them, tell them that I would send fabrics and the marker there. I ask them to finish the goods, that is. It's a matter of Ren Chen (), that means relationship. If we're not well acquainted, why do they work for me?"

He recalled the days when his factory and the subcontractors worked together to finish the rush orders. Late-shipment or sending goods by flight can be a great loss to the manufacturer. The manager maintained that there is conflict of interests between the sourcing agents and the manufacturer. But the manufacturers can understand each other's situation when they are in the same boat. There is a mutual construction of "trust" that governs the operation of this network.

"We do suffer if we fail to meet the deadline. Late shipment means I have to send goods by flight. It's so annoying! The agents won't care about this. He leaves it to us. We can understand the difficulties. We're the friendship there. So I do the favor for them and they do it for me next time."

Apart from utilizing the subcontracting network in Guangdong, the manager also applies the flexible labor strategy to organize the production in Hong Kong. It is a small factory, only with twenty workers at the assembly line. Besides, outworkers are employed. The factory is situated in an industrial building in Kwai Chung, which is near to the working-class public estates. The manufacturer usually subcontracts out parts of the garment like collars to the female workers. The manufacturer can flexibly use the labor in accordance to the orders' urgency.

6.3.2. Buyers' participation in the South China's subcontracting network

I observe that buyers do not actively participate the production line, even when some orders are subcontracted out to the production network in South China. Even in the close-tie pattern (like Factory I), it is rare for the buyer to have any say about the organization of production. He leaves it to the manufacturer.

In regard to the quality control of the production line, that depends on the product's style and the price-range. If the order is medium-end and the style is rather complicated, it is more likely that buyers would have a relatively closer quality control. For example, the

buyers of Factory I visit the subcontracting factories in Dongguan for one or two days to check the workmanship. On the contrary, if the orders are low-end and simple style, like making T-shirts, then the buyer leaves it to the first-tier producer to do the quality inspection. Again, buyers are not interested in participating in organizing the production in the loose-tie pattern.

Concluding remarks on factories without relocation

It is suffice to say that the subcontracting network in South China provides a backup for those garment factories to compete for the orders in the market. The manufacturers can make use of flexibility when they organize their production in both Hong Kong and China. Besides, the social capital of the manufacturer supports the operation of the network. My fieldwork observation also shows that the local garment manufacturers become traders in the global commodity chain through the triangular manufacturing. They act as middlemen mediating the orders between the overseas buyers and the producers in China. This role change also enhances the competitive edge of those garment factories even though they do not relocate.

6.3.3. The experience of a second-tier producer in the commodity chain

A small-scale factory doing cut-and-trim (CMT) has been interviewed. It has no relocation or any production network in China. The subcontractor has been working for parent firms in Hong Kong for the past ten years but is unable to move up to the commodity chain as the first-tier producer. It is worthwhile to examine why it cannot move up to the first-tier while still managing to survive in the nineties. Through the unearthing of the experience of this subcontractor, I hope that this will help us to shed light on how subcontractors' activities are connected with the first-tier producers in the domestic node of the commodity chain.

Most of the garment manufacturers have dropped subcontractors in Hong Kong after relocation, according to the fieldwork interviews. As mentioned above, they have their own plants or utilize the subcontracting network in South China after relocation. So, the massive trend in the industry exerts pressure over Factory A. The subcontractor previously worked with a parent factory for three years since 1988. Their cooperation stopped when the parent factory relocated to the Mainland in 1991. The owner had to find other factories. Since he only keeps loose tie with the buyers, buyers have not discussed with him about any relocation plan. Meanwhile, some manufacturers from the parent factories encouraged him to move production to the Mainland in the late Eighties. Mr Lam recalled how other manufacturers from the parent factories encourage him.

"They said that there's no future of running a factory here. It's better we'll be back to the Mainland. There is abundant cheap labor supply and the rent is low. They said that they receive the orders from buyers and then asked me to manage the production line in China if I relocated there. But I have to assess my ability, I don't need to do this. My wife doesn't like me to go to China. Besides, I don't have much working capital. Unless he (the buyer) joins with us, then it's different. Say, he invests some a hundred thousands and so do I."

However, there is no "coercive isomorphism" in this case. DiMaggio and Powell hypothesizes that the greater the dependence of an organization on another organization, the more similar it will become to that organization in structure, climate and behavioral focus. In this manner, coercive isomorphism results from both formal and informal pressures over organizations by other organizations upon which they are dependent and by cultural expectations in the society in which organizations function. (DiMaggio and Powell:1991:67-9) Factory A needs to depend on his parent factories but the owner does not necessarily follow the suggestions from the parent factory even though they guarantee the orders to him.

"Sometimes they discussed with me about the relocation. In reality, it is another matter. For instance, the producers said that they would give me the order if I moved the production line to the Mainland. They remain in words only. They won't financially support you." (The owner of Factory A)

The verbal promise of assuring orders is not sufficient to motivate the owner to relocate. Without any financial backup from the parent factory, it is not viable for Factory A to relocate.

Besides, lack of financial resources makes Factory A difficult to move up as a first-tier producer in the commodity chain. He does not have any direct access to the foreign buyers or sourcing agents. He needs larger amount of working capital and organizational resources if he intends to do so.

"I need to pay for the quota, the fabrics and the commission. I need large cash flow to do the F.O.B. Now our production cost is about forty thousands a month. If we do the F.O.B., then the cash flow must be twenty times by now. I have to employ the salesman, merchandiser, shipping clerk, accounts clerk."

The owner started the factory as a family business in 1986 after quitting his job as a master in fabrics cutting for over twenty years. His wife was a machinist in the past. The couple run the business with about a hundred thousand dollars and invited his wife's sister as the partner. At first, they purchased several second-hand sewing machines and rented a small unit inside an old private building in Cheung Sha Wan. The owner got the orders from his ex-employer or other friends. The initial establishment size was very small and only fewer than ten workers were employed. At present they have twenty workers.

The orders come from his personal network, which consists of some twelve to thirteen factories supporting their production capacity. At present, the production capacity is some seven hundred pieces per month. The owner says that he has constant cooperation with those factories. "Constant cooperation" does not mean orders are stable, instead they are very precarious. Some factory owners discuss with him about the orders quantity in advance every year. But this kind of agreement is not in black and white contract, rather it is based on "trust" between two parties. When the parent factory cannot keep his promise, the subcontractor need to find order sources from his own network.

However, the subcontractor can still capture the market niches by utilizing the

flexibility in getting orders like rush orders, small quantity or specialized contracting orders.

"Sometimes the orders are very urgent, they urge us to finish the orders within ten days, but we can't. Then, the parent factory only gives us a single color, other colors are subcontracted to other subcontractors."

Once the parent factory gives him an order that is sufficient to support the production capacity for over six months, he need not worry the business. At present, the owner has worked with a medium-size factory for three years, which produces cotton Polo shirts for the US market. The parent factory subcontracts out some orders to him because of the quota restrictions.

Besides, the subcontractor also gets the specialized subcontracting like collar-assembling or sewing the trimming(拷) at the assembly line. He can utilize its flexibility to support the garment production for the first-tier producer in the commodity chain. It is interesting to note that subcontracting out of specialized parts of the garment is similar to the use of internal subcontracting inside the factory. The owner described himself as a "Pau-Tau"⁴ and considered him as if he were the employee for the parent factory.

His perception can help us to understand the nature of the relationship between the subcontractor and the first-tier producer in the commodity chain. Since "Pao-kau" provides the service for the factory on a very flexible basis. That means that management can flexibly utilize them in accordance with their needs, which can be quite precarious in nature and do not require a long-term mutual obligation and commitment.

Besides, the subcontractor manages to survive by utilizing the familial strategy in organizing the production. The family members contribute their effort in running the whole business, responsible for the management and active participation in the production

⁴ Pau-Kau (拷), it is a kind of internal subcontracting which is mostly used as a form of informal labour in organizing the production in the garment workplace like ironing, buttoning, cutting department or packing department. Pau Kau is a gang leader who has employed a group of casual workers to perform specialized tasks for the management. However, since they provide service to the management, there is

process. There is sexual division of labor between the owner and his wife. The husband is responsible for getting orders from other garment factories, dealing with the customs officers and keeping accounts. His wife is responsible for quality control and the supervision of the assembly line. In case of urgent orders, his wife also works as a machinist at the assembly line. The owner used to deliver garments to the outworkers a few years ago. When I interviewed the owner, he was ironing collars for assembling. The participation of family labour is also a way to save on operating costs for the subcontracting business.

The above experience shows that lack of organizational resources makes it difficult for the subcontractor to move beyond the commodity chain. However, its survival depends on flexibility in getting rush orders from a network of garment firms in Hong Kong. On the other hand, the case also shows that capacity subcontracting becomes less important due to massive relocation of the industry. This makes the subcontractor expand his order sources. Besides, the subcontractor has to utilize the familial strategy in organizing the production in order to manage to survive in the industry in the nineties.

6.4. Concluding Remarks

The findings in this chapter show that there are variations in the restructuring strategy among the garment firms in the 1990's. Some manufacturers have chosen relocation or overseas production bases as their major restructuring strategy while some retain the production base in the territory. The following table summarizes the variation of restructuring strategy and its characteristics as follows:

no employment relationship between the casual workers and the management, which means, the management doesn't need to give any workers' entitlements in the Employment Ordinance.

Restructuring strategy	Characteristics	Cases	Their position in the GCCs
Type I: Relocation and overseas production in the third countries	<ul style="list-style-type: none"> • Pioneer during late seventies to early eighties • aggressive share of the market • doing ODM or OBM as the production strategy • vertical integration in forward and backward link in the GCCs • possess the governance features of producer-driven GCCs. 	L, G, Fang's Brother (Esprit), Theme	becoming buyer and able to accrue more profit through the high value-added activities
Type II: Relocation to PRC	<ul style="list-style-type: none"> • Late-comers during mid-eighties to nineties • mimetic isomorphism • stick to OBM production • remain at garment production • sometimes change to the middleman for the buyers through the triangular manufacturing 	B, C, D,E, F, K, M	first-tier producer, sometimes change to a trader for the buyer through the triangular manufacturing
Type III: Without Relocation but utilize production network in PRC	<ul style="list-style-type: none"> • No relocation • depend on the flexibility of the production network in PRC • social capital of the entrepreneur to govern the operation of the network 	H, I, J	first-tier producer, but also a middleman for overseas buyers through the triangular manufacturing
Type IV: No relocation and no production network	<ul style="list-style-type: none"> • No relocation • depend on the first-tier producer to get orders • use of familial strategy in organizing production 	A	second-tier producer in the commodity chain

Table 6.2. Variations in different types of restructuring strategies of local garment manufacturers in the nineties and their position in the buyer-driven commodity chain

The variations in the restructuring strategy of the garment firms reflect their bargaining power with the buyers and their ability in accruing profit in the global commodity chains. Obviously, the manufacturer of the first type strategy is the most aggressive one and they succeed to internationalize the trading and production activities in

the commodity chain. In this manner, they even possess some governance features of producer-driven commodity chain that Gereffi has neglected.

I also like suggest that the restructuring experiences of local garment manufacturers in Hong Kong show that the interaction between foreign buyers are more dynamic and complicated. The driving role of the buyer in shaping the restructuring strategy of the manufacturers is significant only under very specific conditions. It is found that under the close-tie pattern, the buyer is significant in affecting the relocation decision of the manufacturers only when the manufacturers are dependent on the particular buyer. Or when the buyer is also the manufacturer, then they would initiate production in the dependent economy and shape the production network. When the manufacturers are not solely dependent on any particular buyer, then the picture is more dynamic. There emerges a contested and negotiated process between both parties in the relocation process.

In the loose-tie pattern, local manufacturers have to find their own way of competing for orders in the market, then they keep a disinterested and detached manner with each other on the relocation plan. Both in the close-tie and loose-tie pattern, there emerges a "mimetic isomorphism" in the relocation process among the manufacturers, especially for those who move the production to Mainland after the mid eighties. Following others by taking "relocation" is a more secure way for local garment manufacturers when they manage to survive in the Nineties. Besides, I also observe that buyers do not interfere with the manufacturers in organizing the production network during the restructuring process.

Chapter Seven:

Social outcomes after relocation in the commodity chain

In this section, I would delineate the social outcomes that relocation brings to the garment firms and the work organization in the current era. I would engage in a dialogue with Gary Gereffi about the garment manufacturers' role and the social implications on the territoriality dimension which involves a spatial dispersion or concentration of the production units in the commodity chain. Since then, Gary Gereffi has mentioned that the process of "triangular manufacturing" is the most important mechanism for maturing export industries in East Asia. (Gereffi:1994:224) The first-tier producers of the NICs become the middleman for the overseas buyers. They get the orders from the buyers and shift them to other offshore factories in the dependent economy. Besides, some garment manufacturers succeed to move up the commodity chain by doing the OBM. Meanwhile, relocation leads to changes in the work organization and labour process. As suggested by Gereffi: "the change in the economic organization is not just a geographical or spatial change in economic activities in the globalized product world, but rather the mobility of capital becomes a perennial problem confronting the labour force in industrial societies." (Gereffi and Hamilton:1996:21) Again, it projects social implications for the social relation of labour and capital in the current era, which is not examined by Gereffi. Therefore, this chapter addresses the above issues by tracing the following dimensions of the social outcomes after relocation. First, what are organizational changes of local garment firms that enhance their competitive edge after relocation? I explore this in the first section. The second dimension is a close scrutiny on the change in the social organization of production and work organization in Hong Kong after relocation. The spatial division of labour and economic activities in the world economy changes the labour process in the industrial restructuring process. This will be dealt in the second and

third section. By unearthing the above dimensions, it would throw light on how restructuring exerts social outcomes on work and industry.

7.1. Three types of outcomes emerge within organizations - Expansion or contraction?

In the fieldwork, three types of outcomes of relocation for the garment firms are found: horizontal expansion, vertical expansion and relocation but with failure. Horizontal expansion means that there is an increase in order size and production capacity. This is either an expansion of production scale or backward integration in the commodity chain.

The second outcome is expansion by vertical integration, i.e. the manufacturers no longer utilize the Original Equipment Manufacturing (OEM) production strategy. Rather, they extend to the Original Brand Manufacturing (OBM). The firms integrate the retailing, marketing, raw materials manufacturing and garment production. They become the buyer to capture higher share of surplus in the GCCs. In this manner, they even possess the governance features of the producer-driven commodity chain when there is a vertical form of production and trading network in the GCCs.

The third is failure in relocation. My fieldwork observation shows that a factory owner (Case K) had production in the Mainland during the early nineties but he has to wind up the plant. However, he still retains his production in the territory. Due to lack of official statistics, it is difficult to know how many garment firms fail in the relocation process. However, the informants say that some manufacturers fail to benefit from relocation and shift the production back to Hong Kong.¹ Therefore, I do not intend to

¹ The US Customs enforced the factory control in Hong Kong to prevent illegal transshipment activities in September 1996. The US Customs and the Hong Kong Customs had visited a total of 139 factories. The action has drawn strong reaction from the industry. Garment Manufacturers Right-Concern Association, represents some eight hundred factories, complained the difficulties

treat this case as "exceptional", but I suggest the case still represents one type of garment manufacturers' experiences in relocation.

7.1.1. Relocation with horizontal expansion

Some factories enjoy a favourable organizational growth after relocation. First, there is an increase in production capacity. The Mainland's production base helps to alleviate the production cost in Hong Kong. Labour-intensive production process is shifted to the China's plant under the OPA. Small and medium factories enjoy an increase in the production capacity (see Table 7.1). Besides, local garment manufacturers can flexibly use quota categories both in Hong Kong and China's production plants because some categories can be exempted from quota restriction if they are made in China. Then they can compete on medium-price orders with other East Asian manufacturers.

"We can deal with those buyers even though they don't increase the price. It's difficult to expect that they will increase the price. So, we can make it through the outward processing arrangement, increase the scale of production and then the cost can be lower." (The owner of Factory C)

The product line for Factory C is jeanswear. Cutting and assembling procedures are carried out in Hong Kong's shopfloor and the others are shifted to China in 1989. The following table gives a summary of the establishment size and production capacity in HK and China after relocation.

Cases	Establishment size in HK after relocation (workers at operative level)	Establishment size in PRC (workers at operative level) and overseas production sites	Production capacity in PRC's production lines per month
B	15	80	700 pcs
C	50	300	several thousands pcs
D	40	200	an increase of 30 per cent with the existing production capacity
E	50	500, three plants	incomplete
F	40	300	over 100,000 pcs
G	150	2,000, one plant	30,000 pcs
L	nil	Total is 9,809 which comprises of 1,200 in PRC, 1,385 in South East Asia and	2,880,000 pcs

they have on such measures. Some firms doing illegal transshipment held the goods in PRC and return the production base to Hong Kong. (Hong Kong Economic Daily:1997)

		2,847 in Bangladesh	
M	30-40	over 1,500, three plants	incomplete
K	20	200-250	not applicable

Table 7.1: Establishment size in Hong Kong and China's production sites after relocation and the production capacity of each factory per month in China

Second, the garment factories open more plants in China after a few years of relocation. My field data show that local manufacturers start the production in a small scale in the Mainland at the initial stage. They further expand the production bases. For instance, Factory E starts the first production plant in Shenzhen in 1987 employing less than a hundred workers. The workforce gradually increases to three hundred. Management seeks new buyers to support the production lines in China and it succeeds to expand the production to Jiangsu and Beijing in 1993 and 1994. Senior managers coordinate the production in these two plants. The owner plans to do the silk dyeing so as to support garment production in Jiangsu.

Factory G has similar experience. The factory in Shenzhen had only one hundred workers in 1981 and it makes the licensee's orders. When their buyers gradually accept the product quality made in China, Factory G expands the production scale by increasing the workforce to two thousand workers. At present, the Shenzhen plant produces three hundred thousands pieces every month, which is ten times greater than that of HK.

Besides, the manufacturer can diversify the markets to non-quota countries. Before relocation, orders from non-quota countries like Japan or other East Asian countries are made in Hong Kong at a higher cost. They can be fully processed in the Mainland now. My field data shows that many garment manufacturers do not depend entirely on the US market. The following table shows the proportion of share of orders between quota and non-quota countries.

Case	Exports Market and percentage share	ratio % quota countries and non-quota countries
F	US and European	not available
E	US (95%), the European market (5%)	100% quota
B	Sweden, Spain, England (50%) Singapore and local market (50%)	50:50
D	US (30%), EEC 25%, UK 10%, others are East Asian countries, Canada, Australia and local market	55:45
C	US (35%), East Asian (65%)	35:65
L	US, China, Australia	40:60
G	US (25%), Japan (30%), EEC (30%), domestic (17%), Australia and others (3%), South America (8%)	55:45
M	US (60%), UK 6%, Canada 7%, Japan 3.14% and Austria 3.8%, Germany 2.72%	69:31

Table 7.2.: Distribution of buyers' market among those factories with relocation

However, some manufacturers make use of the loopholes in the OPA in getting more orders and make more profits. For instance, the cut-and-sewn garments are fully processed in China and then the garments are transhipped illegally, using made-in-HK label. This is illegal under the origin rules. The experience of Factory D demonstrates how the manufacturer deals with this illegal practice.

It is common that the merchandiser from the buying office needs to inspect goods in China if the garment producer offers "made-in-HK" option. The manufacturer, however, made the garments in China. The management gains the cooperation with the merchandiser and lets him inspect the goods in China in an "informal" way. That means that the merchandiser does not keep any written record after his inspection in China.

"Some buyers know that the goods are 100 per cent or partly made-in China. They also know that you make use of the loopholes of the quota restrictions. Everybody allows me to do so. I can offer them a lower price. The buyers benefit in this process... we've verbal agreement, we can't have the black and white to prove that they have inspected the goods in China. It's supposed to be made in HK. It's our mutual agreement." (The general manager of Factory D)

It is noted that the manager evades the "factory audit checks" from the Hong Kong Customs by using two sets of account books. When I interviewed the manager of Factory D in August 1996, there was no production base there, although the garment firm

has been registered as a factory. In fact, the assembly line was closed in 1994. Merchandising, sourcing, and other trading activities remain in Hong Kong's office. When I re-interviewed him in November, the assembly line was re-opened. About fifty workers were working there. The manager explains that because the US and Hong Kong Customs office enforce the control of the origin rules², they need to retain the production base. "But we will close it as soon as their checks become loose," the manager adds.

7.1.2. Relocation with vertical expansion

Vertical expansion means that local garment manufacturers can get forward integration of economic activities in the GCCs after relocation. Field data shows that Factory L is successful to do OBM and becomes the buyer in the commodity chain. As mentioned in the previous chapter, the group has an overseas production network in the East Asian countries and North China since 1985. It sets up eight joint-venture enterprises in Beijing, Jiangsu, Hebei, Hubei and Guangdong provinces. Management realizes that competition is not so keen by moving the production to northern China while other choose the South region. Besides, they gain easy access to cotton supplies.

"We can buy good quality of cotton fabrics there. Everybody can make garment. But how can we make people buy our garments? Quality is the most important thing. High quality depends on fabric quality. That ensures us to have high quality fabrics supply and prevent us from any unnecessary delay. It's less risky that we've plants in north China." (The managing director of Factory L)

The group makes use of the location advantages in north China by integrating raw-material manufacturing in the global commodity chain. The group formed four joint-venture enterprises of weaving, dyeing and knitting plants in north China and Zhuangdong in the eighties, and was set to develop retailing business in the late eighties.

² The US authorities have enforced stricter textiles and garment control on the Hong Kong's garment manufacturers in September 1996. Factories are given prior consent and then the US customs inspects

"We know that other competitors can do the same thing as us. To win the game, we have to do two things. First, improving our product quality., Second we must gain a profound position in the market. It's not enough to be a garment supplier. Instead, we must become part of the market. To do so, retailing is the only way out."

The group improves the product quality by introducing the ISO9002 in the production process. This helps them to build up a good image. The Hong Kong Productivity Council examines their product quality and production procedure every six months to grant the ISO 9002 certificate.

The opportunity came in 1990 when a financial crisis ruined their frequent buyer, a brand-name chain store selling casual wear in Australia. Having kept a close tie with the group for ten years, it called for the group's support. The managing director describes that they were "passive" at the early stage, and were not actively involved in the daily management because they were not familiar with the retail business. Yet, they acquired the retailing expertise. The group took over the buyer's company in 1994 and used the brand name as a stepping stone to develop retailing business in China.

The group's production bases in East Asian and northern China support garments for the retail outlets. At present, seventy-six per cent of the garment products for the chain stores and eighty-three percent of the export business are produced in the group's production lines in China and other developing countries. The group also establishes strong ties with twenty subcontractors -- one in the PRC, eleven in Bangladesh and eight in the Philippines.

After doing the retailing business both in Australia and North China, the group further raises the capital in the share market in 1996. The group is prepared to capture the retail market in South China.

It is noted that the aggressive manufacturer possesses the producer-governance structure in the commodity chain by having an integrated network of manufacturing and

the factory as to prevent the illegal transshipment.

trading activities in the commodity chain. It is more active in shaping the production network in the commodity chain.

7.1.3. Relocation but failed

The third type of social outcome is that some factories fail to have any expansion after relocation. Factory K relocated the production to Dongguan in 1992. At first, the owner capitalizes on the cheap labour source through the outward processing activities.

However, the owner wound up the factory in China when his business partner withdrew his investment after two years. He ran into financial trouble.

"It's not easy to gain the financial backup from the bank because we're a small factory. Especially when bankers know that we need the money for investments in China. Unless we have the assets for mortgage, we can't gain their support " (The owner of Factory K)

His partner is responsible for getting orders and management of the production in Dongguan. The owner searches for a new partner but in vain. Moreover, his buyers do not help him. Finally, he gives up the Mainland's production. At present, the owner depends on a subcontracting network in Dongguan, which consists of four subcontractors. He explains that by doing so, he can minimize the cost and need not have his own plant in China.

Thus, after relocation, local manufacturers enjoy either horizontal or vertical form of expansion of the garment firms in the commodity chain. Meanwhile, the failure case shows that the garment factory's development is constrained because of the lack of organizational resources like finance and manpower. The following table shows for the garment factories get different forms of expansion after relocation.

Factory	Form of expansion	Production bases in PRC or overseas	Year of set-up in PRC or overseas
B	horizontal	Zhuangzhou	1997
C	horizontal	Dongguan	1989
D	horizontal	Dongguan	1992
E	horizontal, tends to	Shenzhen	1987, 1993 and 1994

	have backward integratio	Jiangsu and Beijing	
F	horizontal	Shenzhen, Panama and Mauritius	1981 for PRC and further expanded th workforce over 2,000 after 1988 1983 for overseas
G	horizontal	Shenzhen	1981
K	fail	Dongguan	1992
L	vertical	North China and Zhuangzhou, Indonesia, Bangladesh, Philippines	1978 - 85 compensation trade and processing assembling 85-90, 8 garment production plants, four in dyeing, weaving and knitting manufacturing bases in PRC 78-95, nine factories in the east Asian countries Retailing in Australia and PRC from 1
M	horizontal	Huizhou, Pun Yu and Dongguan	1978 encourage subcontractors to Dongguan, three factories are set up in 1990, 1994 and 1995.

**Table 7.3: Different forms of expansion after relocation
for the garment firms (except K) in the nineties**

7.2. Implications for product upgrading after relocation

I observe that although local garment manufacturers enjoy horizontal expansion after relocation, they do not necessarily shift their production to high-value added manufacturing. High-value manufacturing means the improvement in the product quality and a shift to higher-end orders. It also refers to the original design (ODM) or original brand manufacturing (OBM). Local manufacturers can earn more surplus by selling the uniqueness of their own design to the overseas buyers.

As mentioned in Chapter Four, while some garment firms shift the low-end product line to high-end product line (like Cases E, F), some still keep low-end production in the China's plants (Like Cases C, D, K, M). This is the same for those factories without relocation. They shift the low-end orders to China's production network. Obviously, garment production in China is locked into a low-wage and labour-intensive production.

I observe that it is quite rare for local manufacturers to do the ODM or OBM (except case B and L). As mentioned in Chapter Five, there is only minimal cooperation

between overseas buyers and local manufacturers in the loose-tie pattern. Buyers rarely transfer firm-specific knowledge to their suppliers. My field data shows that some manufacturers refrain from doing the OBM.

"To us, it's nothing special, the most important thing is that we can finish the goods and they give us the right price. I don't bother with the brandname. We don't need the design. We do the sample with the given design sketch. Serving this customer and then serve another is the same. The most important thing is to balance the production flow." (The general manager of Factory D)

In the close-tie pattern, although sharing of marketing and product information is common between both parties, the manufacturers prefer the OEM production because it is too risky and costly to develop their own brand-name in the market. The managing director of Factory F, who is also the owner, explained why he preferred the OEM production.

"I don't need to do so, I concentrate on my effort in getting orders and production. If I do the marketing (OBM), perhaps I can earn more profit. But there are two sides of a coin. I need a large sum of money to develop a brand. If the brand is not well sold then I'll make a loss. I run this factory with ten million dollars. If I do the OBM, then I need more capital, it can be double! I don't want to take risks. It's not necessarily good for me. You need to do a lot of things, set up office for marketing and need designers. I prefer to concentrate on the manufacturing sector."

Many garment manufacturers share similar opinions, according to the fieldwork data. In fact, brand-name production strategy requires heavy investments in marketing, advertising and design. Some garment firms have attempted to do so but in vain. The manufacturer of Factory E employed local designers to develop their own design a few years ago. It was not a successful experience because overseas buyers insisted on their own design.

"Fashion design is a kind of cultural product... It doesn't mean that our local designer is not good enough, it is only local design doesn't fit their taste and style. We've famous designer here, but the US buyers have theirs. They're close to the market, familiar with the living style and taste there." (The manager of Factory E)

Because of their overseas buyers' poor response, the manufacturer gives up the ODM production and sticks to the OEM production. It is rather difficult for local manufacturers to develop their own brands if their buyers do not support them.

However, some manufacturers succeed to develop high-value added production by doing the ODM or the OBM. It is worthwhile to examine why they can do so. Fieldwork data shows that two types of garment firms can do this. The first type is the large-scale garment firms (like Giordano, Theme, G2000, or the case L) which have very strong organizational resources like finance and manpower. They can spend large sum of investment in advertising to promote their brand-name image in the market. Besides, they have backward or forward-integrated links in the commodity chain.

The second type is those manufacturers who have been trained as designers and specialize in making their own label. The owner of Factory B has been trained as a fashion designer in her tertiary education. This kind of social capital enables her to do the ODM production strategy. On the other hand, she captures the market niches by doing high-quality garments which are near tailoring and small quantity orders. This enables her to gain competitiveness in the market.

To sum up, it is not easy for the medium or small-size garment firms to overcome the difficulties if they shift to the OBM or ODM, given lack of buyers' support and limited financial resources. Besides, they lack the incentive to do so when they can make profit from the OEM production. The relocation provides them an opportunity in getting more orders. Therefore, it has little to do with the product upgrading in terms of ODM or OBM for the manufacturers even after relocation.

7.3. Changes in organization of production after relocation

There are changes in the organization of production and a re-organization of work after relocation. Besides, there also exists a change in the spatial division of work in the restructuring process. I will firstly examine the changes in the subcontracting network in Hong Kong and China in the current era. Second, I will examine the re-organization of work between China's and Hong Kong's workplaces. By unraveling the

above two aspects, we can have a better understanding about the social outcomes that relocation brings to the local garment industry in the restructuring process.

7.3.1. Changes in the subcontracting network in Hong Kong and China after relocation

My field observation shows that local garment manufacturers drop the use of Hong Kong's subcontractors after relocation in the nineties. (See the table 7.2.) Because of the lack of official statistics, we do not know the exact number of subcontractors remaining in Hong Kong. However, based on the fieldwork interview, local manufacturers either utilize the large production scale or the flexibility of subcontracting networks in the Mainland in the restructuring process. Hong Kong's subcontractors become less important. It is noted that the production network in China mainly comes from two sources. One is that the manufacturers wind up their factories in Hong Kong after moving the production to China. These factories are usually located in the Pearl River Delta like Dongguan, Shenzhen or Shunde. This pre-established network among local garment manufacturers has been shifted to South China after relocation. In some cases (like case M), the manufacturer encourages his subcontractors to relocate to China first and work with them.

The second source is the local Chinese manufacturers. As mentioned above, Hong Kong businessmen have worked with the local government or party through compensation trade or outward processing activities when China opened up her economy in the late 1970's. When they are familiar with the environment, they open their production plant or joint-venture enterprises. Of the nine factories, six have worked with the local Chinese in subcontracting before relocation. Hong Kong's manufacturers still keep ties with them in capacity subcontracting.

On the other hand, there also emerges a triangular manufacturing in the commodity chain. Local manufacturers not only act as overseas suppliers, but also they put the orders to the second-tier producers in China or other overseas production plants. The following table summarizes the use of subcontractors in Hong Kong and in China before and after relocation.

Case	Before relocation use of subcontractors in Hong Kong	without-processin activities in PRC before relocation	After relocation use of subcontractors HK	After relocatio use of subcontractors in China	The background of the Chinese subcontractors
B	nil	Nil	nil	Yes, one	Hong Kong
C	yes	yes, infrequent	yes, infrequent	Yes, four sub-contractors in Foshan	local Chinese people
D	yes	Yes	no	yes	Hongkong, Chinese
E	yes, rare	No	yes, very rare	no	Hongkong manufacturer
F	yes	yes, four in Foshan	yes, two but unstable	yes, four in Foshan	Local Chinese
G	yes	Yes	No	No	not applicable
H	yes	not applicable*	no	yes, 5-6	local Chinese
I	yes, but rare	not applicable*	yes, but rare	yes, 2-3	HK manufacturer
J	nil	not applicable*	no	yes, 4-5	local Chinese
K	yes	Yes	yes, but very rare	yes, 2-3	HK manufacturer
L	yes	Yes	no	no	not applicable
M	yes, 5-6 factories	No	yes, 4-5 small-size	yes, the same as Hong Kon	Hong Kong

Table 7.4. : Use of subcontractors in China and Hong Kong before and after relocation

**not applicable: Factory H, I, J - they do not have relocation but depend on the supporting network in South China, either from the local Chinese or the Hongkong producers*

7.3.2. Change in work organization in Hong Kong's production site after relocation

In this section, I would examine the change in work reorganization in Hong Kong after relocation. As suggested by Gereffi and Hamilton, changes in the economic organization is not just a geographical or spatial change in economic activities in the globalized product world, but rather the mobility of capital becomes "a perennial problem confronting the labour force in industrial societies." (Gereffi & Hamilton:1996:21) I suggest that the work re-organization reflects how local manufacturers utilize the labour

strategy in organizing the production. It also represents the social relations of production between labour and capital. Therefore, I will study the reorganization of work in three dimensions. The first is the changes in the production procedure in Hong Kong. The second is the use of technology in the workplace and the third is how local manufacturers utilize the labor strategy. I hope that this can shed light on the changes of the organization of work in Hong Kong's garment industry during restructuring process.

a. Spatial division of work between China and Hong Kong's production site

There exists a spatial division of work between Hong Kong and China after massive relocation during the mid eighties. The production base in Hong Kong becomes contracted and the trading activities for the industry grew more important. I observe that many garment firms have a significant downsizing of operative workers in local shopfloor after relocation. The manufacturing operation is smaller in scale. It is quite common that sample-making, product design, merchandising, material-sourcing and other trading-related activities are carried out in Hong Kong, while the production is in South China. Official statistics shows that many manufacturing establishments do the trading-related activities or turn into trading companies. (CSD:1996) The number of operatives engaged in garment production has dwindled from 256,898 to 153,497, a sharp fall of 40 % in the industry from 1981 to 1991 (CSD:1993:119).

Of the thirteen factories interviewed, only one case closed its production base in Hong Kong. The owner of Case L closed the Hong Kong's production base in 1994. The Hong Kong headquarters coordinates offshore production and retailing business in China and Australia to do product design and marketing of their brands.

Some garment firms contract their manufacturing operations in Hong Kong. Five factories have a significant drop of operative workers. (Cases D, E, F, G, H and M)

More than three hundred to a thousand workers were employed before relocation. The production scale did not shrink immediately after relocation. Labour-intensive procedures with lower skill requirement have usually been shifted to the PRC production plants. When the manufacturing operations in China become mature, local production bases become less important. In the fieldwork, I found many famous brand-names like Mexx, Christian Dior, Armani, Calvin Klein are made in China.

For the small factories, there is no significant change in their Hong Kong workforce, irrespective of having relocated or not (Cases A, C, I, J, K). Informal labor have been commonly employed in the shopfloor. The only exception is Case B. The owner prepares to close down the manufacturing operation in Hong Kong and shift the production to Guangzhou this year.

On the other hand, I observe that how local manufacturers perceive the workers' skills and the origin rules regulations are quite important to influence their decision in organizing the work and production between Hong Kong and China. Meanwhile, overseas buyers have little say in this aspect.

Garment production is usually divided into different production stages, which can be up to twenty to thirty steps. The number of steps depends on the complexity of the garments' style. This can be described in the following diagram.

Pre-assembling stage
<ul style="list-style-type: none">• Orders getting from the sourcing agent or direct buyers• the customer gives the paper sketch to the manufacturer, the master in the sample-making room makes the first sample for the buyer.• First-sample is completed, the second sample is done after amendments Second sample (sales sample) is distributed to the insiders for further comment• after the sales sample is done, a production sample is finalized for production
Production stage
<ul style="list-style-type: none">• Pattern-marking - mark the sizing (like extra-large, large, medium and small size) for the garment.• Cutting department - cut the fabrics into templates for sewing

- Sewing - further subdivided into different parts like trimming, collar-making, pocket-making, zipper-sewing, etc., deskilling is used in the labor process. However, in case of the fashion garment, workers need to sew the whole garment
 - Ironing: this can be divided into two stages, the first stage is to iron the templates, and the second is to iron the whole garment before packing
- Post-production stage**
- Button-sewing
 - label sewing
 - Thread-cutting
 - Cleaning
 - Ironing
 - Packing

Diagram 7.1. Division of work in garment production

Obviously, garment production is very labor-intensive. Skill requirements are different in each department. In my fieldwork, I found that although some factories have contracted their production capacity in Hong Kong, the traditional departments like cutting, marker-making, assembling and other labour-intensive process are still retained in the local workplace. This can be described in the following cases.

Factory E employed some three hundred operatives in the Kwun Tong's industrial building before relocation in 1987. The production capacity did not immediately shrink in the process. Instead, Hong Kong's production concentrates on doing high-end orders. At that time, they made ladies' evening wear for the UK market and needed manual labour to sew the butterfly on the garments. Such labour-intensive procedures have been processed in the Shenzhen plant. When the garment firm expanded the production in Jiangsu and Beijing after a few years, the production site in Hong Kong gradually shrunk. Less than ten per cent of the orders are carried out in Hong Kong's production site. At present, only fifty workers are employed in Hong Kong's shopfloor.

Although the factory has such changes, the traditional labour-intensive departments remain in Hong Kong to deal with the high-end or rush orders. For instance, the crafting department, consisting of five to six workers, is responsible to sew hemming

on the shoulders' of the ladies' jacket³ because hemming-sewing is too delicate for machines to process. The same holds for the cleaning department. Workers check for any dirt or thread left on the garments after assembling the clothing. They have to slightly scrub the surface of the garment with cleansing agents. Again, this cannot be done by the washing machines. These procedures still remain at the local production site. The computerized sample-making room is also retained in Hong Kong.

I suggest that the how the manufacturer perceives the skills in garment production is quite important to affect how they organize the work between Hong Kong and China. For instance, sample making and marking grading are usually done in Hong Kong. The manager realizes that the Chinese workers' skills cannot reach her requirement. This makes her retain the sample making in Hong Kong.

"The background of the Chinese workers affect their concept on garment. We have cultural difference in our thinking. They don't have the skills when they look at the clothes and then know how to get it done. They can't create the "look". The "look" and "feeling" of the garment can't come out. It is because they have few contacts with the outside world. That's why at present they can't reach our requirement." (The manager of Factory E)

In Case E, they have some experienced skilled workers in Hong Kong. A seventy-year-old Shanghai master has been working in the sample-making room for over twenty years. The manager describes him as an "artist" in sample making.

"They've spent lengthy time to get training.... they have many experiences to do the work which is very delicate and excellent. They're so skillful. I think that they're the artists. A good master is an artist!"

Although the Chinese workers cannot replace the experience and skills of the Hong Kong workers now, the management provides skill training in sample making to the Mainland workers.

Besides, since timing and keeping good communication with foreign buyers is also important in getting orders, the manager prefers to retain the sample-making room in Hong Kong. It is quite common that overseas buyers give the design sketch to

³ Hemming is a kind of soft fabrics that makes the shoulders of a shirt or coat look more stiff

manufacturers and request to get the first-draft sample within one or two days. In some cases, the request can be within a few hours. Therefore, it is quite common that most factories retain the sample making in a local production site. Sometimes, computerized equipment is used to facilitate sample-making and marker-grading process. Of the thirteen factories, ten retain the sample-making room in Hong Kong.

The only exception is Case F and G. The sample making and marking department have been relocated to China in the 1990's. It is because the owners realize that the Mainland workers can master the skills and replace those of Hong Kong workers.

The origin rules also influences the re-organization of work in Hong Kong and China. In doing the cut and sewn garments, the Hong Kong origin rules define the major transformation as "assembly of parts" of the garment. The procedure of "major transformation" must be done in Hong Kong while other parts can be processed outside Hong Kong after July 1996. Before the revision, "cutting and sewing" must be done in Hong Kong.⁴ I observe that local garment manufacturers re-organize the work according to the changes of the origin rules' requirements. (See Table 7.5) In other words, local garment manufacturers shift the assembling procedure to China and the cutting department is retained in Hong Kong before July 1996. When the definition has been revised, assembling part is shifted back Hong Kong and cutting department is carried out in China. This institutional restriction in turn affects the re-organization of work between Hong Kong and China.

b. Low technological innovation in the workplace

Another salient characteristics in the work re-organization is that there is low use of technology in the workplace, irrespective of having relocation or not. Of the

⁴ Minutes from the Hong Kong Legislative Council on the Panel on Trade and Industry, 10 December 1996.

thirteen cases, only four firms (Case E, F, L, M) adopt computerized technology in the production. They are either the medium or large-scale firms. Computerized-aided-design (CAD) in the pattern-grading, marker-making and numerically controlled (NC) cutting systems at the pre-assembling stage are utilized at the local production site so as to support the large-scale production in China or offshore production lines.⁵

My field data shows that the manufacturers usually try to minimize fabric wastage and control production cost by using the computerized equipment.

"Previously, we need two or three skilled workers to do the pattern-grading for the production capacity with a total workforce of 100 workers. Now, we have five staff in two computer rooms. The capacity greatly increases and they can deal with the production lines of five plants both in Hong Kong and China. It helps us to minimize the production cost in terms of saving labor force." (The manager of Factory G)

Obviously, the computerization helps them to minimize the production cost and raise the productivity. Due to this work re-organization, workers' skills in sample making or marker grading becomes obsolete and they need to be retrained before taking up the new job. However, some are dismissed and replaced by the new technology in the process.

My field data shows that the modular system has been employed in one factory. Factory E introduced this system two years ago in order to increase productivity in Hong Kong and China. The owner visited some garment factories in South Korea and Japan. He is impressed by their success. Then he employed a US consultant to help the implementation of "modular production system" in the plants of Hong Kong and China two years ago.

Modular system differs from the traditional bundles system in the organizing the production. In "bundles system", garment components are cut and packed in bundles of

⁵The computerized-aided equipment is to minimize the fabric wastage in the production process. CAD system permits designs to be transferred to visual display terminal (VDT) screens for markers to arrange jig-saw-like for pattern cutting. Such systems tried to reduce fabric waste and cut product development time. While the NC systems permit large quantities of fabrics to be cut accurately and quickly. (See the Quick Response Bulletin)

over twenty to thirty parts. Then, they are packed into bundles of different parts for assembling, like collar, cuff, pocket, hemming. Individual machine operators perform a particular sewing operation for each part. They retie the bundles and put them in a bin for other operations.

"In the bundle system, we used to finish parts of garment and then transfer to other line to perform other parts. Sometimes it can be a mess when we've to rush for shipment the next day! For example, our workers have sewn a thousand pieces of garment today, then we can't manage at the next assembly line." (The manager of Factory E)

In "modular system", workers are organized into small groups like a module, comprising five to twenty workers. They are required to perform a particular assembly task until the entire garment is finished within the team. The manager re-designs the shopfloor by putting the sewing machines into a U-shape, with workers reorganized into a small group. Team spirit is strongly emphasized in the modular system.

"It's not only a physical change, the most important thing is that they should have the idea of "team spirit". "Ah, we're the same group and our team has to achieve the goal." If some workers can't finish the task within the time schedule, others within the group need to help her to smooth the production flow. This keeps the flow more balance."

Besides, lights are installed beside each modular in the workplace.

"We set a completed rate standard for the workers. If the group fails to achieve the goal, the light turns red. If the group passes, the light turns blue. They don't know how much they earn until the entire clothing is finished. The wage will be based on the team effort. This idea is so good. This makes them look like as if they were the boss. The idea is like those teams are in competition. Workers participate in the team and compete with each others." (The manager of Factory E)

The idea of competition among the different "modules" of workers is similar to the labor control logic as described by Michael Burawoy. (1979, 1985) He describes how the management exerts labor control over workers in the factory regimes when workers participate in the competition in doing the piece-rate job. The games are mutually constructed and participated in by the operative workers. Without probing into further discussion on the labor control issue here, it is noted that the manufacturer seeks to increase the productivity by using this system.

On the other hand, the remaining nine factories do not adopt any technology in the production. Rather, the manufacturers prefer to capitalize on the abundant labor supply and its flexibility. For instance, Factory G expands the workforce in Shenzhen's plant by two thousand workers in 1996. The manager realizes that he makes use of the labor flexibility rather than making huge investment on the technological equipment.

"It's so convenient. The sample making is done in Shenzhen and sent back to Hong Kong. We have our own trucks to transport the garments back to Hong Kong everyday, the production in Shenzhen is operated as if it were on our upper floor. That's why we don't use the technology." (The manager of Factory G)

By the same token, the small factories can also make use of the abundant cheap labour supply in China by their own subcontracting network there. Besides, since their orders are usually small-batches and local garment manufacturers capture the fast changing market niches, it is not feasible to adopt technological innovations in the production lines. Moreover, it is not financially viable for the small factories to make heavy investments in purchasing computerized equipment.

c. Numerical flexibility - continuation of flexible labor strategy

It turn to the third dimension - the labour strategy being utilized in the organization of work in the Hong Kong. I observe that labour casualization is quite common in the workplace. Twelve factories have employed informal workers like Pao-gong (包工), casual workers and outworkers in Hong Kong (See Table 7.5). Local manufacturers still utilize numerical flexibility in organizing the production.

"Numerical flexibility" refers to irregularly and insecurely employed workers who may not have a direct relationship with a firm at all. It is the precariousness of the employment relationship which provides employment with a numerically variable workforce for the employers (Pollert:1982:283). It is usually found in the cutting department, ironing, buttoning and packing department in the garment industry.

The manufacturers prefer to utilize flexible labor on the shopfloor as a form of internal subcontracting. For instance, Bao-gong (), as one type of internal contracting, is an ambulatory work group which is led by a gang leader or a contractor. The contractor negotiates with the management over the terms of the pay and the job requirement. This gang leader is also responsible for supervising the workers and paying them. This form of internal contracting does not carry any employment relationship with the manufacturer. Rather it only carries a "contractual relationship with the factory.

"The bao-gong is the boss and we're doing business with him. We're only in a contractual relationship. We rent out workplace and machinery to them. I told him what I want and then he gets it done. We don't need to worry about whether workers are willing to work overtime if they're led by the Bao-gong. I can concentrate on production, rather than supervising workers. This helps me save the management cost."
(The manager of Factory E)

The management can make use of labor flexibility by the use of bao-gong in the peak season. The flexible labour can alleviate their responsibility for direct controlling the labour process and avoid employer conflicts with the workers. The conflicts between workers and the management are mediated by the Bao-gong. Workers do not have any employment relationship with the management when the factory ends the contract with the bao-Tao. The management need not bear any labour compensation or severance payments when laying off the workers under the existing Employment Ordinance.

Outwork is another form of informal work. Compared with the 1980's, local manufacturers use fewer outworkers in the garment industry. In the fieldwork, only four factories use women outworkers (Cases C, J, E, F). Case C and J use outworkers on a frequent basis while the latter do so very infrequent.

Factory J depends on women workers to make collars in order to meet the flexible demand. Those women outworkers are the ex-workers and very experienced in the industry. Therefore, the manager need not worry about the quality control.

"This can help us to save more space in the shopfloor. Then workers here can do other processes. We send the templates to them at a central point in the public estate and then the head of the See Lai (the

housewife) helps to collect the finished collars for us. It helps us to increase the productivity." (The manager of Factory J)

Similarly, the manufacturer of factory C has subcontracted the sample making to the women outworkers. They are responsible to do the first-draft sample for the buyers' amendments.

The latter two (Factory E and F) subcontract less than one or two per cent of work to the women workers and this depends on the order's urgency.

I would suggest that the use of flexible labour strategy helps the manufacturers to save overhead costs, especially for the small-scale garment factories (like case J and A). Besides, since casual labor like workers in Bao-gong or outworkers are unprotected by the labor law so that manufacturers can evade their responsibility on the labour. However, it also shows that because of the availability of the abundant cheap labour source in South China, those manufacturers with relocation stop using informal labour in Hong Kong. It is more likely for small factories to utilize flexible labour strategy for low-cost production.

7.5. Concluding Remarks

To sum up the social outcomes that industrial relocation brings to the garment industry in Hong Kong, relocation itself is a way for local garment firms to expand in same cases. The manufacturers can diversify the product lines with different price ranges and explore markets in the non-quota countries after relocation. Besides, some garment firms develop their own brand-name and integrate the retailing and manufacturing in the commodity chains. In this case, garment manufacturers become a buyer and play an active role in coordinating the production network in the GCCs.

However, this affects the development of high-value added manufacturing in the industry. While local manufacturers manage to survive after relocation, garment

production is locked into low-wage production, by utilizing flexible labour either in their plants or through the subcontracting network in China. It is quite difficult for the medium or small-scale garment firms to develop high-value added manufacturing like doing the OBM production as large-scale factories do. Given limited organizational resources and lack of institutional support, they prefer the OEM production.

Regarding the use of subcontracting network in the industry, the emergence of production network in the Mainland becomes an alternative for local manufacturers in organizing production. This leads to a spatial division of labour between Hong Kong and China in which Hong Kong becomes a center to coordinate the global production network for the industry while China becomes a significant production base to support the industry.

Case	workforce in HK (operative and non-operative level)	Use of informal work	Work at HK's production site	Work at China's production lines or other countries
A	15 machinists, 1 supervisor	yes	cutting, assembling, packing, ironing	not applicable
B	13 operatives, 5 in merchandising, clerical work	nil	cutting, assembling, packing	assembling, but there will be change and shift all the labour-intensive procedure this year
C	20-30 machinists, about ten non-operative workers in office work, merchandising and clerical work	yes, outworkers doing the first-draft samples	sample-making, assembling, label-sewing	washing, cutting, marker-making, pattern-grading, ironing, packing
D	80 workers before relocation and no production base in 1994, reopen the production site in Nov 1996, machinists, 15 casual workers and about ten non-operative workers merchandising and sourcing	temporary worker and casual workers at checking and packing	cutting, marker-making, sample-making, assembling, ironing, packing	the same as the C
E	60 machinists in assembly line, 5 checking, 5 in supervising, 6-10 ironing and buttoning masters, 7 machinists in sample-room, 20 in the office	Bao-kung at ironing, buttoning and packing, casual workers, outworkers	sample-making, cutting, pattern-grading (computerized), assembling, buttoning, ironing, cleaning, 1 label-sewing, packing	cutting, assembling, buttoning, ironing, cleaning, packing

F	20 machinists, 8 merchandising, shipping, material sourcing	outworker, but unstable	marker-making (computerized), assembling	sample-making, cutting, assembling, ironing, packing
G	150 machinists, 20 production and planning 3 in engineering/ maintenance, 8 in quality assurance, 20 in sales and merchandis 10 in administration and 10 in shipping department	casual workers	cutting, assembling	sample-making, cutting, assembling, buttoning, ironing, packing, 2,000 machinists a team of 35 people responsible for quality assurance
H	8-10 machinists, about ten clerical workers in merchandising, material sourcing, accounts and other trading-related activities	casual workers	Cutting, sample-making, buttoning, ironing and packing, but on a very small scale and very flexibly operated, depend on the orders	all the labour intensive procedure are put in the subcontractors
I	15 machinists in assembling sample-making, 3 in clerical work and 1 management	casual workers	sample-making, pattern-making, cutting, assembling, ironing, packing	not applicable
J	20 machinists, 2 cutting department, 1 in sample-making 1 in management, 4 in office work	outworkers and casual workers	the same as I	not applicable
K	20 machinists, 3 in office work, 1 supervisor, 1 manager	nil	the same as J	not applicable
L	Headquarters for the group Management in HK administration 300 sales and marketing 41 design and merchandising 59, warehousing 22 manufacturing 44	nil	no production base, but have a sample factory with computerized-aided equipment for marker-making	<u>PRC</u> production sites Guangdong, and north China - retail shop 1316 - management 486 sales and marketing 71 design and merchandising 11, warehouse 186 South East Asia Management 146 manufacturing 138 Bangladesh management 216 manufacturing 2847
M	60 operatives in the production site, over 20 people in trading -related activities	casual workers employed in ironing and packi	sample-making, grading, cutting, ironing, assembling, buttoning, packing	the same as in Hong Kong

Table 7.5. : Organisation of work and change of workforce after relocation in Hong Kong and other production sites in PRC or overseas countries by various garment factories in 1996

Chapter Eight: Conclusion

In this concluding chapter I would relate my empirical findings to focus the discussion of industrial restructuring and to the theoretical issues of the global commodity chain literature. Gary Gereffi proposes that the buyer is a driving force in shaping the production network in the commodity chain. There are authority and power relationships over the producers in the buyer-driven governance structure that determine how material, human and financial resources are allocated in the GCCs. My empirical study brings the role of local manufacturers and their interaction with the buyers back into our analysis of the forces that shape the organization of production network.

This study shows that the buyer is critical in shaping the production network and can affect, though only under certain conditions, the restructuring strategy of garment manufacturers. I will try to reconstruct Gereffi's buyer-driven thesis in the first section of this chapter. Also, I will summarize my discussion of the forces shaping the restructuring strategy of local manufacturers in the second section. The third part will bring out the limitations of the study. I will propose possible directions for further research in the last part of this chapter.

8.1. Rethinking the thesis of buyers' role in the commodity chain

The study starts with an examination of how local garment manufacturers manage to capture market niches through the OEM or OBM to enter the world economy in the past decades. Facing keen competition during the early eighties, they compete with other NICs competitors by changing their product strategy. Three types of product strategies are identified. The first is shifting from low-end and mass volume orders to high-end and small-batch orders, the second is specialization in specific products, and the third is diversification of product lines with different price ranges. Local

garment manufacturers adopt quick response to cope with the volatile market and be flexible in meeting customers' orders. They also explore the markets in non-quota countries.

When local manufacturers are incorporated in the world economy through the OEM or OBM, they rely on the local trading network, which consists of local traders or buying offices of the foreign buyers to receive orders. In this process, local manufacturers have built up direct linkage with foreign buyers and there emerges different types of ties with them. Two types of interfirm linkages are identified: close tie and loose-tie pattern. These ties are anchored in the daily interactions between both parties, like getting orders, knowledge transfer, conflict management. Close tie pattern represents a symbiotic relationship with the buyers while loose-tie represents a more instrumental nature of relationship with the buyers.

The unraveling of these interfirm linkages in the Hong Kong leads us to engage in a theoretical dialogue with Gary Gereffi about the nature of the governance structure in the buyer-driven commodity chain. Gereffi has placed strong emphasis on the authority and power relationship in the buyer-driven governance structure. This study shows that the picture in Hong Kong is more dynamic and contested. Not only does a power relationship emerge within the node, but also symbiotic and instrumental relationships. We need to unravel the conditions under which how different types of relationship emerge between overseas buyers and local manufacturers.

Using the resource dependency organization theory, we find that when a focal organization manages to survive and cope with the conflicting demands with the external environment, its ability to acquire resources and whether the resources possessed by the influencer are critical to the organization's autonomy. Regarding to the relationship between buyers and domestic manufacturers, the fieldwork shows that manufacturers take

different product strategies in order to enhance their abilities to acquire resources (the order source and other product information) in the global commodity chain. On the other hand, buyers represent a pool of resources to the manufacturers (in terms of product information, marketing information and the power to allocate orders to different suppliers) that can be critical and important to the domestic manufacturers' survival.

It is noted that if the manufacturers are fully dependent on the buyer to acquire the resources, it is more likely that overseas buyers can exert control over the organization. So too in the case of the relocation decision. The findings show that it is only when the manufacturers are fully dependent on the buyer and when the buyer expands its role as the manufacturer, that it is more likely buyers become critical and dominant in influencing the relocation decision of the manufacturers. On the other hand, when domestic manufacturers are able to maximize their discretion power by strengthening their ability to acquire resources elsewhere, they become less dependent on the buyers.

To briefly conclude the findings in the previous chapters, I would contend that when local manufacturers are solely dependent on any particular buyer as their major source of orders, it is more likely that the buyers would exert authority and power relationship over manufacturers in terms of the relocation and the organization of production. In this light, the buyer becomes crucial as the driving force in affecting the relocation of the manufacturers and shaping production network. But local manufacturers try to search for own autonomy to avoid being controlled by any buyer.

In the close-tie pattern, sometimes the buyers restrict local manufacturers in receiving competitors' orders. Then there emerges a latent power relationship over manufacturers. However, the relationship between two parties is characterized as "symbiotic" in which the buyers assure stable order and transfer of product knowledge to the manufacturers. This helps to enhance the manufacturers' competitive edge.

With regards to the loose-tie pattern, orders are unstable and it is difficult for the manufacturers to maintain long term relationship with their buyers. Buyers lack the incentive to transfer any particular firm-specific assets (like the new product design or development) to local manufacturers. This kind of "instrumental" relationship in the loose-tie makes local manufacturers look for different buyers in the market.

The emergence of different interfirm linkages in the garment industry has implications for local manufacturers' relocation decisions. This study shows that buyers would have different responses and different roles when local manufacturers take "industrial relocation" as their major restructuring strategy. In the close-tie pattern, three types of responses emerge from the buyers - resistant, disinterested and active participation. This leads to a more contested and negotiated situation between both parties in the relocation process. Buyers are not necessarily the major enabling factor to push manufacturers to relocate. Sometimes it is the manufacturer that takes the initiative of relocation and persuades his buyers to accept his plan. Meanwhile, disinterested response from the buyers over local manufacturers' relocation decision is found in the loose-tie relationship.

However, irrespective of close-tie or loose-tie relationship, price signals given by foreign buyers are found among local garment manufacturers. Although the buyers do not explicitly encourage the manufacturers to launch industrial relocation, the price pressure on the manufacturers becomes an indirect force to affect their relocation decision. They perceive that the environment is uncertain. This sense of uncertainty becomes a strong force to encourage them to follow other manufacturers who have already relocated to China. "Mimetic isomorphism" is found among the manufacturers in the relocation process in the late eighties.

My empirical findings reveal that the buyers can be crucial only when the manufacturer is in a dependent relationship. The other condition is that when the buyer himself integrates manufacturing and retailing activities in the commodity chain, the buyer becomes critical in enabling the manufacturers to relocate. This in turn shapes the organization of production in the GCCs. I reconstruct Gereffi's buyer-driven thesis by means of the following diagram.

Buyer-driven governance structure	Nature of network in the GCCs	Relationship between buyers and manufacturers	Buyers' role in shaping the production network in the GCCs
The substance of the governance structure is not clearly specified	Power and authority relationship	Manufacturers are dependent on buyers	Buyer is the main driving force

Gereffi's thesis on buyer's role in shaping the organization of production network in the buyer-driven commodity chain

Buyer-driven governance structure	Nature of network in the GCCs	Relationship between buyers and manufacturers	Buyers' role in shaping the production network in the GCCs
Close-tie	1. interdependent 2. power and authority relationship (Gereffi)	1. Symbiotic 2. Dependent on buyers	Two patterns emerge in symbiotic relationship in close-tie 1. Resistant and negotiated 2. Disinterested and detached, mimetic isomorphism In case of the dependent relationship over the buyers, then it is more likely that buyer is actively participating in relocation and then critical in shaping production network in the GCCs.
Loose-tie	instrumental	instrumental, market-dominated	Disinterested and detached, mimetic isomorphism

My reconstruction on Gereffi's thesis

To recapitulate, I would suggest that Gereffi's thesis holds only when the manufacturer is dependent on the buyers and has built up very strong ties with the buyers. When the symbiotic or instrumental relationship emerges between two parties, the buyer is not an enabling factor in shaping the production network.

Regarding to the possibility for garment firms to move up the global commodity chain in Hong Kong, this study finds that the competitive edge of local garment firms can be enhanced after relocation. The garment firms experience horizontal or vertical expansion after relocation. It is because they can benefit from an increase in production capacity and diversify the markets to the non-quota countries. The other form of organizational growth is vertical expansion. Large-scale garment firms move ahead by doing the OBM or high-value added activities in marketing or product design in the commodity chain. In this process, such garment firms even possess the producer-driven governance structure by the full integration of economic activities in the commodity chain. The only exception is those factories which fail in the relocation.

There are variations in the restructuring strategies among local garment manufacturers in the restructuring context. Some garment firms choose to retain their production bases in Hong Kong. The production network in China, which is governed by the social capital of the manufacturers, helps the garment firms to survive.

The restructuring process also leads to changes in the production network and organization of work between Hong Kong and China. There is a spatial shift of subcontracting network from Hong Kong to South China after massive relocation in the past ten years. The subcontracting network either comes from the Hong Kong manufacturers or the Chinese manufacturers. With regards to the work re-organization, the production base in Hong Kong has contracted significantly when most of the labour-intensive process have been shifted to China. Hong Kong remains as a centre for global

sourcing, merchandising, sample-making and other trading-related activities. But informal labour is still utilized by the manufacturers in the local shopfloor.

8.2. Forces that shape the restructuring strategy of domestic garment manufacturers

Manufacturers who relocate their production lines have a common belief that "garment-making" is a sunset industry in Hong Kong. The notion of "sunset" means marginal and the industry is in decline. Some manufacturers used to have a strong sense of achievement as an industrialist in the past. But they are pessimistic about the industry's future. "It's a sweatshop industry and we can't earn much now," a veteran garment manufacturer put it.

This study finds that this perceived threat to survival is widely held by local manufacturers who are late in adopting relocation. They perceive that they cannot survive if they do not relocate.

Relocation is perceived as a convenient strategy for local manufacturers. As mentioned in the previous chapter, sense of uncertainty is the powerful source for the organization to model after other firms which are perceived as successful. Besides, the outward processing arrangement is also conducive to the manufacturers to relocate the labor-intensive process to China. My study shows that when some manufacturers decide to relocate, they are not sure whether they can get sufficient orders to support the plant in China. They only have a very rough estimate about the orders.

The minimal governmental role is an important institutional factor that forces the manufacturers to take "industrial relocation" as their major restructuring strategy in the eighties. The government has intentionally refrained herself from helping any particular industry. She does not have any plan to direct the development of the manufacturing industry when the economy is undergoing a structural change during

the eighties. Local manufacturers have to deal with the restructuring problem on their own effort. Yet the government is slow to respond to the changes. It was not until 1992 that the Quick Response Centre has been set up by the Hong Kong Productivity Council to collect information on technologies and services for quick response, conduct research, and introduce specific technologies to the local manufacturers. The government also takes a cautious approach in research and development activities. But the total spending on research and development of manufacturing industry is only 0.1 percentage of GDP in 1994, which is the lowest among other NICs and Asian countries. It has been criticized as "very low by world standards" (MIT: 1997:72-77). Lack of a comprehensive industrial policy pushes the Hong Kong's manufacturers to move production either to China or other overseas countries. I observed that many manufacturers call for government support for the industry, especially in the provision of labour and cheap land supply. Some small manufacturers even call for financial support.

Since the factories with relocation can utilize the abundant cheap labour source in South China, the garment manufacturers have no incentive to adopt any technological innovation in organizing the production. There is no collective learning of doing ODM or OBM in the industry to upgrade the garment production. Instead, it leaves to the individual manufacturer to utilize the opportunity in the market.

This leads to our discussion on the possibility of product upgrading of the garment firms in Hong Kong. Product upgrading or high-value added manufacturing can be viewed as an alternative strategy other than "relocation" strategy for garment firms. When the garment manufacturers take "relocation strategy" as the only-option, it is necessary for us to examine why high-value manufacturing is not chosen as an alternative coping strategy. As stated above, local garment manufacturers can maintain

their competitive edge in capturing the market niches by quick response and being flexible in meeting the customers' needs. They stick to the OEM experience and follow the buyers' requirement. Fieldwork observations show that they refrain from doing ODM or OBM (except case B and L) although manufacturers can accrue more surplus in the GCCs by offering higher value-added activities to the buyers. Some manufacturers try to do the ODM but in vain. They need long-term investments in advertising to build up their own brand-name in the market if they do OBM. So, compared with relocation, the manufacturers do not necessarily have any high-value manufacturing when perceiving the former as "a common trend" in the industry. Without the buyers' or any institutional support, it leaves to the individual manufacturer to take care of their production organization.

8.3 Towards an organizational level analysis of industrial restructuring in Hong Kong

The main objective of this study is to examine Hong Kong's way of industrial restructuring and to engage in a theoretical dialogue with the development literature, with special attention focuses on the global commodity chains perspective. The GCCs perspective is a grand political economy perspective to address the development issues. Gereffi is successful in departing from the Marxist production approach by conceptualizing the connection of economic activities in different zones as a commodity chain. However, the GCCs perspective is relevant to macro level analysis and it is inadequate to provide a middle-range theoretical framework to explain the actual restructuring experiences of Hong Kong's industry. Therefore, we need to bring back the firm's level and look at the social process of the organization of economic activities, in order to fill the gap that Gereffi left unexamined in his GCCs study.

To sum up the findings, this study of the industrial restructuring pattern of the garment industry can be summarized in two theoretical contentions. First, I try to depart from the core-centered analysis and bring back the active role played by local manufacturers in the restructuring process.

Second, I examine the substance of the governance structure of the buyer-driven commodity chain by unraveling the nature of interfirm linkages in the commodity chain. By bringing back the organizational level analysis, the examination of the interorganizational influences between buyers and manufacturers in the resource dependency perspective helps us to understand the dynamics and nature of relationship between two parties and fill the gap of the governance structure in the commodity chain that Gereffi neglects. Besides, this sheds light on how the economic actions of different actors are connected in the commodity chain and how they shape the production network in the GCCs. Besides, by proposing the direction of the emergence of triangular manufacturing and doing the OBM production strategy, the examination of the changes in the organization of production network and work re-organization sheds lights on what kind of social outcomes the restructuring bring to our economy.

8.5. Limitation of the study in this thesis

Thirteen garment firms have been interviewed in this study. Of these thirteen firms, ten had been interviewed twice while the remaining three can only be interviewed once. Some manufacturers can only offer me about an hour.

Also, I examine the nature of ties between buyers and garment firms in the commodity chain. It would be better if the buying offices in Hong Kong could have been interviewed.

It is not easy to get access to local manufacturers and I cannot fully employ a genetic strategy for the study. "Genetic" strategy means that it focuses on the

differences between similar cases and look for historically specific causality. (Burawoy:1991) However, I would contend that the significance of the cases being studied is that they can tell us about how they take the restructuring strategy in Hong Kong's industrial restructuring context.

8.6. Proposed direction for future research

A lot of interesting empirical and theoretical questions are worthwhile for further study of Hong Kong's industrial restructuring. For instance, with regards to the product upgrading ability of local garment manufacturers, my study shows few can do the ODM or OBM production. Their experience in doing the OBM is worthwhile examining in greater details in order to see how high-value manufacturing is possible within the organization.

I find that most of the garment manufacturers have utilized a production network in South China after relocation. The manufacturer also changes its role to a trader in the commodity chain. Initially, the evidence shows that social capital of the entrepreneur governs the operation of this production network in South China and Hong Kong. Trust becomes a social mechanism that governs the relationship between the subcontractors in PRC and the producer in Hong Kong. My fieldwork suggests that the support of this subcontracting network in PRC can facilitate the survival of the Hong Kong garment manufacturers. It is worthwhile to examine the ties and relationship between the subcontractors and the Hong Kong garment firms, which relates to the theoretical discussion about the network form of economic organization. This surely deserves our theoretical and empirical attention.

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Appendix 2

The semi-structured questions for the fieldwork interviews

Basic information

Contact person: _____ Title: _____ Tel no. _____

Name of the company: _____

Characteristics of the factory:

1. Nature of capital _____ Foreign/ local capital
2. Date of establishment in HK _____
3. An independent organisation or a subsidiary: _____
4. Nationality of the manufacturer: _____
5. Types of the product manufactured: _____
6. Source of order: countries: _____
Types: e.g. sourcing agent, own brands for sale
7. Degree of market stability: _____
What's the difference between 80 to 90's? _____

Coping strategies on the changing economic environment

8. What kind of difficulties does the industry face in the mid of 90's?
9. From the above, what are the main obstacles that you feel the most difficult to handle? How does it differ from the 70's to 80's?
10. How would you describe the profit margin within these three years? (increase, unchanged or decrease)
11. What are the coping strategies in your company? How does your company remain the competitive facing the above difficulties?
12. Among various strategies, please give more details about the process
13. Among various strategies, which factor do you think that you are most confident to manage? Why?
14. What are the comparative advantages that the Hong Kong garment industry enjoys?

Relationship between buyers and garment manufacturers in the buyer-driven GCC

1. Source of order: from overseas buyers, trading firms, own licensee, or OBM? The percentage?
2. Details of the product type: (most type), production volume, price and market
high volume, low price from discount stores or mass merchandiser
high volume, medium price from speciality stores or department stores like "private label"
low volume, high price of fashion boutique
low volume, medium price of small stores
low volume, low price for local market
others?
Stability of the orders?
Number of frequent buyers and the percentage?
How many years of the frequent buyers?
The order size?
Is there any difference between 80's to 90s (in terms of quantity, styles, quality request)
3. Given there is keen competition in the market, how can you get the orders from overseas buyers?
What kind of strategies do you have in getting the orders? What kind of product line enables you capture the market niche?
4. Suppose a buyer comes to your office and wants to give you the order. Under what conditions will you reject the order? Apart from cost considerations, do other factors like product quality, time schedule, affect you decision? What kind of product quality can't you make?

5. If the buyers reduce the quotation price, under what conditions would you still accept the orders? What is the rationale? Do you expect both parties or you, as a vendor, can generate something good for the future? How? What is the good?
6. If there are several buyers who are competitors in the core countries, will they accept the same manufacturers to be the same supplier for their competitors? What did they say?
If yes, as a supplier, what is your decision? Will you follow the instructions from the buyers? Why? Or else what would you do? Any examples?
In fact, is there any difference in the quality requirement among different brands? Or the difference is just like the brandname? (like the case of Reebok and Nike)
7. As a supplier for the buyer, do you like to be the main supplier for several buyers? But on the other hand, they may ask you to supply goods for them only. Do you like such subcontracting?
8. Why?
9. In fact, when entering a transaction with the buyers, do you have any bargaining power with the buyers? (in terms of time delivery, payment)
10. Since you have to get the orders from the buyers, do you perceive as a vendor that you are passive or “negotiating”, or active in maintaining the relationship with the buyer? Please give some examples.

Connections between buyers, trading company and manufacturers in getting orders and organising production

1. Under what conditions do the orders come from the buyer directly and bypass the trading agent? Why? Could you enjoy more surplus in the GCC if you bypass the trading company?
2. Again, under what kind of conditions do you need to depend on the trading company? What functions have they played that facilitate you in organising the production or getting the orders? Do they share the risks in the transactions? Examples?
3. After the trading company refers you to a buyer, do the buyers know that you are his supplier? Will the buyer visit the factory site? After doing the first transaction, would you contact the buyer by your own means and bypass the trading company? Why? Or why not?

Experience in doing the OEM in the GCCs

1. What skills and techniques do you learn from the buyer in doing the production for them? How could this facilitate you to develop your business?
2. Does your company have its own brandname or licensee? If yes, how does this develop?

Relocation experience

1. Any production line in China or other countries?
2. When did the relocation take place?

Rationale behind relocation decision

The following questions are trying to identify the “enabling” factors in the relocation process

a. Whether buyer is an enabling factor

1. How did you decide the factory has to be relocated? Apart from the cost factor, how do you perceive the investment climate in Hong Kong and China? Did the buyers give you any signals or ask you to relocate the production line to China? In what way?
2. Do the buyers guarantee you to give more orders if you relocate to China? Or put it another way, did they say that if you don’t give them a cheaper quotation price, they would find another supplier?
3. Before the relocation, do you expect you can get more orders that is sufficient for you to open a plant in China? Do you need to tell your clients in advance that you will relocate the plant to China and ask them to allow you to give you produce in China? What is their response?
4. How do you decide which kind of orders are produced in China? Do the buyers have any say in this process? Do they accept the made in China product at that time?

5. Do the buyers have any say/participation in organising the production in China's plant? (just like Marks and Spencer)
6. Do the buyers have any special request to monitor the production in China? For instance, do buyers visit the China plant frequently to monitor the production procedure? Is there any difference in the method of quality control in monitoring the production in Hong Kong and China?

b. If buyer is not a significant enabling factor, then what are the other critical determinants?

1. Then, when you decide to relocate, how do you perceive the investment environment in Hong Kong?
2. Was there any information sharing about relocation experience among other garment suppliers before your relocation? How did such information affect your decision?
3. Do you view that relocation is a way of survival or an opportunity for business expansion?
4. Or is it just because many manufacturers relocated their production lines and thus encouraged you to follow their action?
5. Before the relocation, do you have any social network in China? How important was the network as an enabling factor in facilitating you to set up the plant in China? In what ways did such network help you? Please give some examples.

After relocation

1. After you relocate the plant, how did the relocation facilitate you to get more orders? New buyers? Or the old buyers will give you more orders because of the relocation?
2. Does your factory expand after the relocation? In terms of production capacity, establishment and orders. Please give the number, if possible.
3. Do you have any plan to expand for the next two years? (Vertical integration or backward integration)

Forms of relocation

1. Which form of relocation did you take in China: compensation trade, export-processing, joint-venture or owning a factory? Any change over the few years?

2. What kind of work is being relocated at the initial stage? Workforce in China's plant _____

Sample-making	_____	(any difference at the initial stage and at present?)
cutting	_____	
marker and pattern	_____	
sewing parts	_____	
assembling	_____	
buttoning	_____	
ironing	_____	
sewing label	_____	
packing	_____	

3. Do you work with the subcontractors before the relocation? How about after the relocation?
4. If yes, how many subcontractors you are working with? Are they frequent subcontractors? What is the percentage on your production capacity? What type of orders are being subcontracted to the subcontractors? Where are these subcontractors? Are they also relocated to China or still in Hong Kong?

History of the firm: Before the relocation

Embedded context of the owners

1. Previous employment
2. Subjective perception on the business environment in starting the firm
3. organisational form of the factory e.g. establishment size, product line, order, subcontractor

Organisation of work after relocation

1. Please describe the production procedure of the factory (in Hong Kong)

Size of the establishment

No. of workers employed in Hong Kong: _____

Characteristics of the workforce: (full time and the sex-ratio)

Management	_____
Office clerks/secretary	_____
Merchandiser	_____
Technicians/engineers	_____
Skilled workers/craftsman	_____
Operatives (machinists)	_____
Foreman/line supervisor	_____
Others	_____

2. How long is the production time?

3. Which kind of work is employed by non-standardized forms

Types of non-standardized forms of labour	Type of work done	How frequent
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Bao-gong _____

Subcontracting _____

Outworkers _____

Causal workers, part-time workers _____

Temporary workers _____

4. Under what conditions will your factory employ the non-standardised workers?

5. What are the advantages? (e.g. flexibility, saving cost) _____

6. How does the management have effective control on the product's quality, keep on time schedule and meet the orders when employing the non-standardised form of labour? _____

7. How was work organised before the relocation? What is the fundamental difference in the organisation of work in your factory? E.g. which kind of jobs are being displaced in the past years?

Use of technology in the production line

8. Any use of technology at the production line? If yes, pls specify which part? Any use of technology at the pre- or post-production process (e.g. inventory control, retailing)

9. If no, please explain why: (e.g. market, size of production, product type, skill of workers, inflexibility of technology, high cost, insufficient government support)

10. What are the advantages and benefits for using technology? e.g. production cost, control on production line, meeting the market time led, quality control or others?

11 With the use of technology, how does it affect the workers? (pls specify which level of workers) Any change of skill requirement for workers? Is retraining necessary? Who will get the training?

12. In the 90's, is "quick-response manufacturing" or flexible manufacturing a rising trend for the clothing manufacturers? How does it affect the organisation of the production line in your factory?

13. The Government has encouraged the manufacturers to adopt the unit production system and modular production systems. Do your factory employ such system? If yes, what are the advantages? How does it affect the work process and the workers? Are workers required to use more team-work and self-initiative spirit in performing the tasks? If no, why?

14. Is it necessary for the management to maintain a flexible labour organisation strategy or is it stable? What are the reasons?

Skill Dimensions

15. What is the skill requirement for Hong Kong workers (at different level) at the production line?

16.. At operative level- (multi-skill or low-skill/deskilling)

- In your opinion, what constitutes a "skill"?
- adaptability to changing orders
- quick pace

Compared to the mass production, whether in the past is a kind of deskilling (ie. workers just handle a part of the clothing) but now they need more multi-skill because of the changing product need?

b. At the Craftsman(Pattern-making, marker)

c.supervisory/foreman: _____

d.Merchaniser: _____

Office work: _____

17. Does the company provide any training to the workers because of the new skill requirements?

18. What kind of workers are most urgently required in the clothing industry? (at operative, craftsman and non-operative level

19. Is the recruitment easy or difficult? Why? In what ways? Please give some examples?

20. Is there any labour shortage? Why? Every year the Clothing Institute, TI and the Polytechnic University have many graduates students and they are the supply side of the labour force. Could they fill the gap?

Management of workers / Nature of control towards workers(Optional, depend on the time)

21. What type of pay system for operative workers? (piece-rate, daily or monthly) Why is it so? Is there any change when the factory is undergoing a restructuring process?

22. On the piece rate system, how do the management calculate the price for the garment? Is it a general practice?

23. Do the workers know the price before starting sewing the garment? If they are dissatisfied with the price, how does the management deal with it? In what way? (e.g. through the line-supervisor, or the workers will collectively bargain with the management?)

24. How does the management ensure the production can meet the time-schedule? (e.g. rushing the order) Do you set the minimum level for workers to complete the task? If yes, how? If no, why?

25. Does the management set any measures to evaluate the workers' performance? If yes, what are they? Is there any difference in terms of

a. in different division of work _____

b. between male and female workers _____

26.How do you keep the productivity of the workers and motivate their morale on work?

27. Can you describe if is there any significant difference in managing the workers during the 90's?

28. How could describe the stability of the labour force in your company? (turnover rate of the workers)

29.Which group of workers' turnover rate is comparative greater? Why? And how does it affect the production line?

30.Are there any measures taken to encourage workers to have stable service?

31. Welfare Conditions of the factory:

(Machinists or others)

Yes/no

attendance bonus

Bonus for overfilling output quota

Long service reward

Year end bonus

meal allowance

shift allowance

factory coach/travelling allowance

provident fund

entertainment activities

others

Relating to the above, is there any significant difference before the restructuring?

32. What is the pay condition of the machinists in these three years? (increase, decrease or unchanged)

Are they underemployed? If yes, do you think that the management has some responsibility on this?

Why

33. How do you describe the work mentality of your workers?

34. Is there industrial conflict in your factory? What is the nature? How did it happen? How was it resolved? What lessons did the factory learn from the conflict?

35. Generally speaking, how would you describe the relation between the management and workers in the past years?

36. Views on the labour legislation: how do you see the recent amendments of the Employment Ordinance? e.g. Long-term service pay, maternal leave for women workers?

Appendix 3

Cases	Title of the interviewees (all are Chinese) and Date of the interviews
A	Owner 10/1/97, 28/2/97
B	Owner 6/1/97, 28/2/97
C	Owner 29/11/96, 20/2/97
D	General manager 19/8/96, 29/11/96
E	General manager 23/10/96, 20/2/97
F	Owner, managing director 25/10/96, 3/3/97
G	marketing manager 31/5/96, 15/12/96 & 3/1/97
H	Owner
I	Owner 22/10/96, 9/1/97
J	Production manager 5/6/96, 6/1/97
K	Owner 17/11/96, 18/1/97
L	Managing director 21/11/96
M	Owner, managing director

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